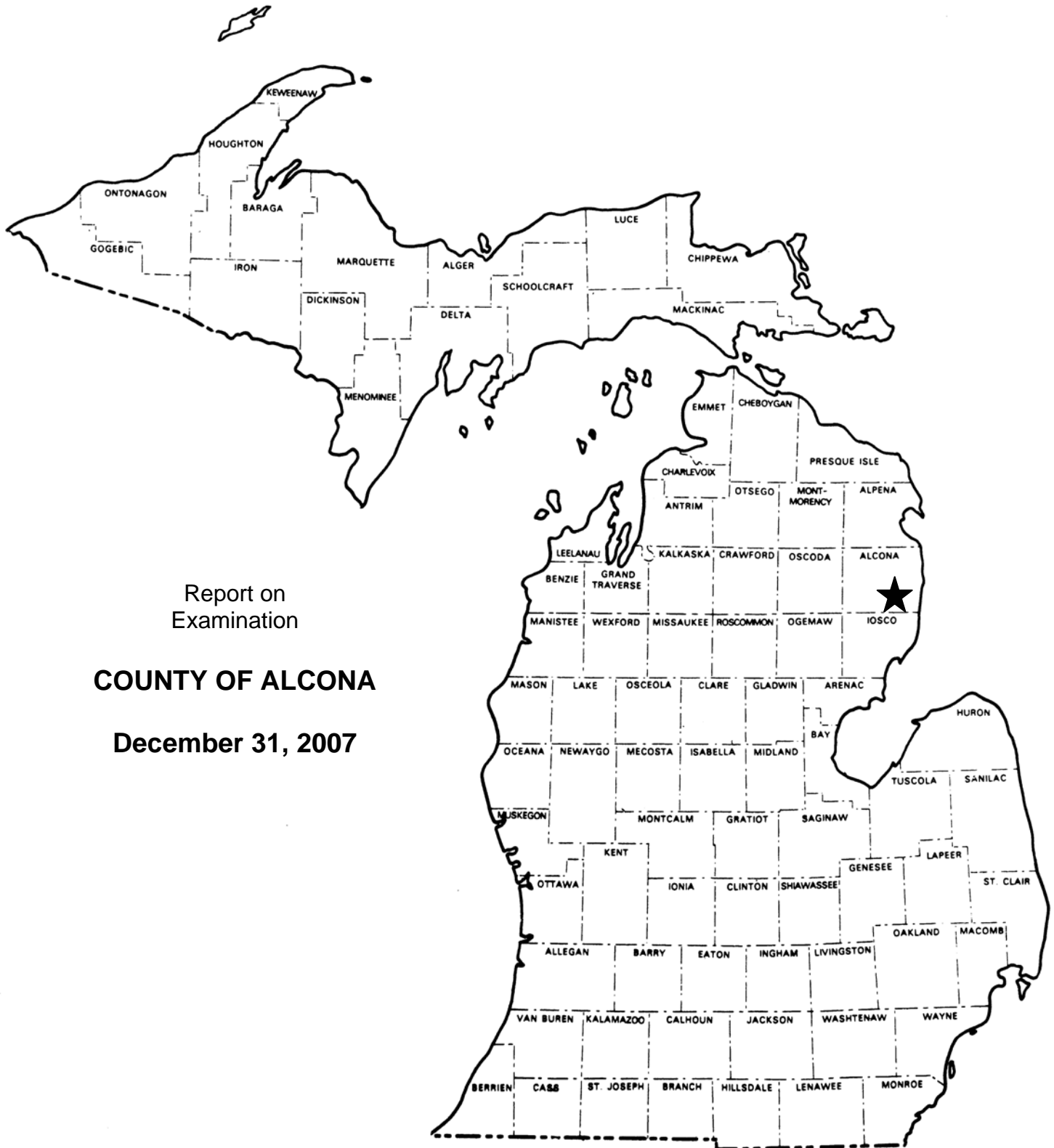


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

COUNTY OF ALCONA

December 31, 2007

COUNTY OF ALCONA
BOARD OF COMMISSIONERS

Kevin Boyat
Chairperson

Carolyn Brummund
Vice-Chairperson

Sheila R. Phillips
Commissioner

Richard C. Simmons
Commissioner

Kenneth R. Timm
Commissioner

COURT JUDGES

Ronald M. Bergeron
Circuit Judge

William R. Myles
Circuit Judge

Laura Frawley
Probate Judge

Allen Yenior
District Judge

OTHER ELECTED OFFICIALS

Anna McCoy
Treasurer

Patricia Truman
Clerk

Karen V. Healy
Register of Deeds

Douglas Atchison
Sheriff

Thomas Weichel
Prosecuting Attorney

COUNTY POPULATION--2000
11,719

STATE EQUALIZED VALUATION--2007
\$1,065,283,800



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

September 11, 2008

County of Alcona
Board of County Commissioners
106 Fifth Street
Harrisville, Michigan 48740

RE: Unqualified Opinion on Basic Financial Statements

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Alcona County, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the Alcona County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Alcona County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Alcona County Road Commission (special revenue component unit), which statements reflect total assets and revenues of \$14,093,788 and \$5,995,162, respectively, of the component units as of December 31, 2007. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Alcona County Road Commission, is based solely on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented

component units, each major fund, and the aggregate remaining fund information of Alcona County, as of December 31, 2007 and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 11, 2008, on our consideration of the Alcona County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 11 and the budgetary comparison information in Exhibits K through N are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We and other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Alcona County's basic financial statements. The accompanying supplementary and related information presented as Exhibits O through V is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

ALCONA COUNTY

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COUNTY OF ALCONA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Alcona County's financial performance provides an overview of the County's financial activities for the calendar year ended December 31, 2007. This discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the County's financial activity; c) identify changes in the County's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the County, as a whole, and present a longer-term view of the County's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide financial statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

Overview of the Financial Statements

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents supplementary information and schedules. The basic financial statements include two kinds of statements that present different views of the County.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the County's overall financial status. These statements report information about the County, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The Statement of Net Assets and the Statement of Activities provide information about the activities of the County and present a longer-term view of the County's finances. The two government-wide statements report the County's net assets and how they have changed. In the statement of Net Assets and the Statement of Activities, we divide the County into three kinds of activities:
 - Governmental Activities--Most of the County's basic services are reported here, including the general government, public safety, health and welfare, and cultural and recreation. Property taxes, State and Federal Grants and charges for services finance most of these activities.
 - Business-Type Activities--The County charges a fee to customers to help it cover all or most of the cost of certain services it provides. The County's delinquent tax revolving fund, fair board and jail commissary funds are reported here.

COUNTY OF ALCONA

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Component Units--The County includes two separate legal entities in its report: the County Road Commission and the Board of Public Works. Although legally separate, these “component units” are important because the County is financially accountable for them.
- The remaining statements are fund financial statements and provide detailed information about the most significant funds, not the County as a whole. Some funds are required to be established by State law and by bond covenants. However, the County establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that focus on individual funds; reporting the operations in more detail than the government-wide statements. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. The County’s two kinds of funds, governmental and proprietary, use different accounting approaches.
 - *Governmental Funds*--Most of the County’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the County’s general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental funds in reconciliations on exhibits following the fund statements.
 - *Proprietary Funds*--When the County charges customers for the services it provides, these are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and Statement of Activities. In fact, the County’s enterprise funds are the same as business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.
 - *Fiduciary Funds*--The County is the fiduciary agent acting in various capacities for others. All of the County’s fiduciary activities are reported in a separate Statement of Net Assets for Fiduciary Funds. We exclude these activities from the County’s other financial statements because the County can not use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

COUNTY OF ALCONA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The County as a Whole

The County's net assets for the governmental funds increased \$1,462,131 from a year ago for the governmental activities due to budget cuts across all departments and some increases in revenues. The County's net assets for the business-type activities decreased \$774,935 from a year ago mainly due to an increase in liabilities from borrowing to purchase delinquent taxes. In a condensed format, the tables below show a comparison of the net assets as of the current year to the prior year.

	Governmental Activities 2006	Governmental Activities 2007	Difference	Percent
Current and Other Assets	\$ 5,270,094	\$ 7,207,664	\$ 1,937,570	37%
Capital Assets	2,537,982	2,371,763	(166,219)	-7%
Total Assets	7,808,076	9,579,427	1,771,351	23%
Long-Term Liabilities Outstanding	486,437	453,542	32,895	7%
Other Liabilities	1,544,714	1,691,829	(147,115)	-10%
Total Liabilities	2,031,151	2,145,371	(114,220)	-6%
Net Assets				
Invested in Capital Assets--Net of Related Debt	2,506,944	2,371,763	(135,181)	-5%
Restricted	2,292,079	2,572,239	280,160	12%
Unrestricted	1,172,902	2,490,054	1,317,152	112%
Total Net Assets	\$ 5,971,925	\$ 7,434,056	\$ 1,462,131	24%

	Business-Type Activities 2006	Business-Type Activities 2007	Difference	Percent
Other Assets	\$3,806,981	\$3,360,905	\$(446,076)	-12%
Total Assets	3,806,981	3,360,905	(446,076)	-12%
Long-Term Liabilities Outstanding		600,000	(600,000)	-100%
Other Liabilities	273,973	2,832	271,141	99%
Total Liabilities	273,973	2,832	271,141	99%
Net Assets				
Unrestricted	3,533,008	2,758,073	(774,935)	-22%
Total Net Assets	\$3,533,008	\$2,758,073	\$(774,935)	-22%

COUNTY OF ALCONA

MANAGEMENT'S DISCUSSION AND ANALYSIS

A portion of the County's net assets in the amount of \$2,371,763 reflects its investments in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that are still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net assets, \$2,572,239, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,490,054 represents "*unrestricted net assets*" that may be used to meet the County's ongoing obligations to citizens and creditors.

At the end of the current calendar year, the County is able to report positive balances in all three categories (invested in capital assets-net of related debt, restricted and unrestricted) of net assets, both for the government, as a whole, as well as for its separate governmental and business-type activities as explained above.

COUNTY OF ALCONA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets for the years ended December 31, 2006 and December 31, 2007:

	Governmental Activities <u>2006</u>	Governmental Activities <u>2007</u>	<u>Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 2,009,865	\$ 1,823,592	\$ (186,273)	-9%
Operating Grants and Contributions	949,463	960,805	11,342	1%
Capital Grants and Contributions		35,206	35,206	100%
General Revenues				
Property Taxes	4,789,718	4,411,612	(378,106)	-8%
Unrestricted Investment Earnings	167,993	282,437	114,444	68%
Rentals	5,032	2,175	(2,857)	-57%
Other Revenues	<u>12,501</u>	<u></u>	<u>(12,501)</u>	<u>-100%</u>
Total Revenues	<u>7,934,572</u>	<u>7,515,827</u>	<u>(418,745)</u>	<u>-5%</u>
Program Expenses				
General Government	2,295,864	2,355,617	(59,753)	-3%
Public Safety	2,911,009	2,575,450	335,559	12%
Public Works	33,240	16,422	16,818	51%
Health and Welfare	1,466,505	1,633,570	(167,065)	-11%
Community and Economic Development	262,527	238,824	23,703	9%
Recreation and Culture	484,937	467,112	17,825	4%
Other	189,523	157,348	32,175	17%
Interest on Long-Term Debt	<u>11,699</u>	<u>1,118</u>	<u>10,581</u>	<u>90%</u>
Total Expenses	<u>7,655,304</u>	<u>7,445,461</u>	<u>209,843</u>	<u>3%</u>
Increase (Decrease) in Net Assets Before Transfers and Extraordinary Item	279,268	70,366	(208,902)	-75%
Extraordinary Item--Recovery (Loss) Due to				
Embezzlement	(408,690)	141,054	549,744	135%
Transfers	<u></u>	<u>1,250,710</u>	<u>1,250,710</u>	<u>100%</u>
Change in Net Assets	(129,422)	1,462,130	1,591,552	1230%
Beginning Net Assets--Restated	<u>6,101,348</u>	<u>5,971,926</u>	<u>(129,422)</u>	<u>-2%</u>
Ending Net Assets--Restated	<u>\$ 5,971,926</u>	<u>\$ 7,434,056</u>	<u>\$ 1,462,130</u>	<u>24%</u>

COUNTY OF ALCONA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Public Act 357 of 2005 provided a funding mechanism to serve as a substitute to county revenue sharing payments. This substitute funding mechanism involves a gradual shift of county property tax millage from a winter tax levy to a summer tax levy and, additionally, required the establishment of a restricted fund to be known as the Revenue Sharing Reserve Fund. Beginning in 2004, the property tax revenue of the governmental activities increased due to the creation of the Revenue Sharing Reserve Fund in 2004, which shifted the General Fund County Property Tax Collections from December to July over a three year period. During that time period, the County levied 33% more each calendar year and set aside that amount into the Revenue Sharing Reserve Fund. The County in turn draws an amount from the fund each year equal to the estimated State Revenue Sharing payment.

General government revenues and expenses decreased from 2006 to 2007 which was mainly due to significant reductions in spending by the County. The County also experienced an extraordinary recovery of \$141,054 in general government revenues due to public sale of property and an insurance recovery.

	Business-Type Activities <u>2006</u>	Business-Type Activities <u>2007</u>	<u>Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 290,848	\$ 439,118	\$ 148,270	51%
Operating Grants and Contributions		11,605	11,605	100%
General Revenues				
Unrestricted Investment Earnings	<u>123,853</u>	<u>135,995</u>	<u>12,142</u>	<u>10%</u>
Total Revenues	<u>414,701</u>	<u>586,718</u>	<u>172,017</u>	<u>41%</u>
Program Expenses				
Delinquent Tax Revolving Fund	4,803	10,728	5,925	123%
Delinquent Tax Fund 2006		1,260	1,260	100%
Delinquent Tax Property Sales	56,430	39,540	(16,890)	-30%
Non-Major Enterprise Funds	<u>73,300</u>	<u>47,150</u>	<u>(26,150)</u>	<u>-36%</u>
Total Expenses	<u>134,533</u>	<u>98,678</u>	<u>(35,855)</u>	<u>-27%</u>
Increase in Net Assets Before Transfers and Extraordinary Items	280,168	488,040	207,872	74%
Extraordinary Items	(797,839)	(12,264)	785,575	-98%
Transfers	<u>(1,250,710)</u>	<u>(1,250,710)</u>	<u>(1,250,710)</u>	<u>100%</u>
Increase (Decrease) in Net Assets	(517,671)	(774,934)	(257,263)	50%
Beginning Net Assets--Restated	<u>4,050,679</u>	<u>3,533,007</u>	<u>(517,672)</u>	<u>-13%</u>
Ending Net Assets--Restated	<u><u>\$ 3,533,008</u></u>	<u><u>\$ 2,758,073</u></u>	<u><u>\$ (774,935)</u></u>	<u><u>-22%</u></u>

Unrestricted investment earnings increased because more funds were available for investment. The County had an extraordinary loss of \$12,264 due to costs associated with civil suit preparations for potential recovery from loss.

COUNTY OF ALCONA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

As the County completed calendar year 2007, the governmental funds reported combined fund balances of \$3,705,381, an increase of \$1,362,472. The net changes are summarized below:

	Governmental Activities 2006	Governmental Activities 2007	Amount Difference	Percentage Difference
Revenues				
Taxes and Penalties	\$ 4,789,718	\$ 4,229,652	\$ (560,066)	-12%
Licenses and Permits	4,023	3,935	(88)	-2%
Federal Grants	485,279	301,177	(184,102)	-38%
State Grants	461,502	606,985	145,483	32%
Charges for Services	1,624,478	1,598,490	(25,988)	-2%
Contributions From Local Units	2,395	2,543	148	6%
Fines and Forfeits	99,081	121,823	22,742	23%
Interest and Rentals	173,026	284,613	111,587	64%
Other Revenue (Loss) Due to Embezzlement	(408,690)	141,054	549,744	-135%
Other Revenue	179,399	133,627	(45,772)	-26%
Total Revenues	7,410,211	7,423,899	13,688	0%
Expenses				
General Government	2,281,624	2,348,865	67,241	3%
Public Safety	3,709,217	2,478,973	(1,230,244)	-33%
Public Works	28,365	19,992	(8,373)	-30%
Health and Welfare	530,783	1,573,642	1,042,859	196%
Community and Economic Development	261,821	239,200	(22,621)	-9%
Recreation and Cultural	424,285	406,397	(17,888)	-4%
Other	189,523	157,348	(32,175)	-17%
Capital Outlay	91,478	55,564	(35,914)	-39%
Debt Service				
Principal	33,913	31,038	(2,875)	-8%
Interest and Fiscal Fees	1,499	1,118	(381)	-25%
Total Expenditures	7,552,508	7,312,137	(240,371)	-3%
Excess of Revenues Over (Under) Expenditures	(142,297)	111,762	254,059	-179%
Other Financing Sources (Uses)				
Interfund Transfers In (Out)				
Primary Government	244,078	2,123,944	1,879,866	770%
Primary Government (Out)	(244,078)	(873,234)	(629,156)	258%
Total Other Financing Sources (Uses)	-	1,250,710	1,250,710	100%
Beginning Fund Balance	2,485,206	2,342,909	(142,297)	-6%
Ending Fund Balance	\$ 2,342,909	\$ 3,705,381	\$ 1,362,472	58%

COUNTY OF ALCONA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The County's Funds

The financial statements for the County's major funds are detailed in Exhibits C through G following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the County as a whole. The County Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millage. The County's major funds for 2007 include the General Fund, Ambulance Fund, Housing Commission Administration Fund, Revenue Sharing Reserve Fund, Delinquent Tax Revolving Fund, Delinquent Tax 2006 Fund and the Delinquent Tax Property Sales Fund.

The General Fund is the chief operating fund of the County. Unless otherwise required by statute, contractual agreement, or board policy, all County revenues and expenditures are recorded in the General Fund.

The most significant services paid by the County's governmental funds are general government and public safety, which incurred expenses of \$2,348,865 and \$3,417,435, respectively, during 2007.

The County's total governmental revenues had a slight increase from the prior year (\$13,688). Expenditures decreased by approximately 3%, mainly due to the County requiring an overall decrease in departmental expenditures, reductions in overtime for the sheriff department as well as other cost saving measures and a decrease in capital outlay purchases.

COUNTY OF ALCONA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-Type Activities

	<u>Business-Type Activities 2006</u>	<u>Business-Type Activities 2007</u>	<u>Amount Difference</u>	<u>Percentage Difference</u>
Operating Revenues				
Interest and Penalties on Taxes	\$ 101,087	\$ 122,917	\$ 21,830	22%
Charges for Services	173,206	310,979	137,773	80%
Other	16,555	5,222	(11,333)	-68%
	<u>290,848</u>	<u>439,118</u>	<u>148,270</u>	<u>51%</u>
Operating Expenses				
Salaries and Wages	3,274	5,718	2,444	75%
Materials and Supplies	93,402	78,785	(14,617)	-16%
Contracted Services	11,564	12,535	971	8%
Insurance	16,136	12,213	(3,923)	-24%
Repairs	10,157	1,692	(8,465)	-83%
	<u>134,533</u>	<u>110,943</u>	<u>(23,590)</u>	<u>-18%</u>
Net Income (Loss) From Operations	<u>156,315</u>	<u>328,175</u>	<u>171,860</u>	<u>110%</u>
Nonoperating Revenue (Expenses)				
Interest Income	110,799	135,995	25,196	23%
Loss Due to Misappropriation of Assets	(797,839)		797,839	100%
State Grant	13,054	11,605	(1,449)	-11%
	<u>(673,986)</u>	<u>147,600</u>	<u>821,586</u>	<u>-122%</u>
Total Nonoperating Revenues (Expenses)	<u>(673,986)</u>	<u>147,600</u>	<u>821,586</u>	<u>-122%</u>
Net Income (Loss) Before Operating Transfers	(517,671)	475,775	993,446	-192%
Transfers In--Primary Government		1,491,831	1,491,831	100%
Transfers (Out)--Primary Government		<u>(2,742,541)</u>	<u>(2,742,541)</u>	<u>100%</u>
Net Income (Loss)	(517,671)	(774,935)	(257,264)	50%
Beginning Net Assets	<u>4,050,679</u>	<u>3,533,008</u>	<u>(517,671)</u>	<u>-13%</u>
Ending Net Assets	<u>\$ 3,533,008</u>	<u>\$ 2,758,073</u>	<u>\$ (774,935)</u>	<u>-22%</u>

COUNTY OF ALCONA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The County's business-type activities consist of the Inmate Welfare Fund operating on sales of amenities to inmates, the Delinquent Tax Property Sales Fund which operates on charges for services revenue, and the Delinquent Tax Revolving Fund which represents collection of delinquent taxes from various years. Net operating income increased by \$171,860 as a result of an increase in the sale of forfeited properties. There was an overall net loss of \$257,264 primarily due to transfers (out) to Primary governmental funds. The business-type net assets decreased by \$774,935 (or 22%) mainly due to the transfers to other funds.

General Fund Budgetary Highlights

Over the course of the year, the County Board amended the budget to take into account events during the year. The County's General Fund revenue budget was increased by \$62,928 (1% above the original budget) during calendar year 2007. Actual General Fund revenue and other financing sources totaled \$5,960,555, which was \$1,221,576 higher than the final amended budget. The largest variance was an increase of \$1,246,611 in transfers from the business-type funds to increase the cash flows necessary for general operations of the county. These operating transfers were necessary due to the 2006 loss due to the diversion of revenues by the prior Treasurer.

The County's expenditure budget was increased by \$62,828 (1% over the original budget) during calendar year 2007. Actual General Fund expenditures and other financing sources totaled \$4,703,945, which was \$34,934 below the final amended budget. The largest variances were decreases in anticipated public safety and fringe benefit expenditures. The fringe benefits reduction was due to a change in health insurance carriers.

Capital Asset and Debt Administration

At the end of 2007, the County had \$2,371,763 invested in a broad range of capital assets, including land, land improvements, buildings and building improvements, office equipment, and police vehicles and equipment. Major additions to the capital assets this year included a new well on the county fair grounds, maintenance to the rolling shelves which extended their lives, CORE computer program and general building improvements. These additions totaled \$55,564.

Debt is classified as long-term if it matures in a period greater than one year. At the end of the current calendar year, the County had total debt outstanding of \$453,542 in its governmental activities, which includes vested employee benefits of \$383,959, and \$600,000 in business type activities for the 2006 Delinquent Tax Revolving Fund.

COUNTY OF ALCONA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budgets and Rates

The prior county treasurer was removed from office on November 22, 2006 by the Board of Commissioners, due to his failure to provide a written report explaining a series of financial transactions involving funds of the County. He has since been charged and plead guilty to embezzling \$1,237,700 of County funds. This loss has had a serious impact on the services the county provides.

Due to the embezzlement of funds and neglect of the former treasurer to pay State Education Taxes (SET), the County borrowed \$600,000 to pay prior years' SET, reduced supply costs, and developed a hiring freeze inclusive of not filling some vacant positions.

The County has considered the following factors in preparing the 2008 calendar year budget:

Multiple factors were considered in preparation of the 2008 budget. A slower and recessed economy caused the County to recognize that dollars would have to be spent more sparingly and spread further. Recognizing that health care costs have been rising dramatically, the county shopped and found a health care plan providing for a savings to the County yet meeting the contractual responsibilities for coverage. A basic 20% reduction of nonpayroll related items was instituted across the board with the exception of existing contractual commitments. Building activity has slowed considerably, causing the County to recognize a reduction in rising SEV in the county. A search was made and continues for an opportunity to fund activities through grant assistance. No new taxes were sought. Payback to those funds with the embezzlement loss will be initiated as dollars become available through the restitution process.

The above mentioned actions constitute the basis of reclaiming a healthy financial position for Alcona County and its residents.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Alcona County Board of Commissioners at 106 North Fifth Street, Harrisville, Michigan 48740.

Separately issued component unit financial statements for the Alcona County Road Commission can be obtained from the administrative offices at 301 North Lake Street, P.O. Box 40, Lincoln, Michigan 48742. Financial statements for the Board of Public Works may be obtained from the County at the address listed above.

ALCONA COUNTY
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2007

EXHIBIT A

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-Type Activities	Total	Component Units
<u>ASSETS</u>				
Current Assets				
Cash and Cash Equivalents	\$ 1,201,191	\$ 863,483	\$ 2,064,674	\$ 391,176
Investments	2,218,419	1,851,197	4,069,616	238,653
Receivables				
Taxes--Current Levy	1,752,284		1,752,284	
Taxes--Delinquent		608,030	608,030	
Special Assessments			-	8,435
Accounts and Loans	1,651,767		1,651,767	3,990
Due From Local Units of Government	177,848	19,655	197,503	257,991
Due From State	224,696		224,696	887,209
Internal Balances	(18,541)	18,541	-	
Inventories			-	261,676
Total Current Assets	7,207,664	3,360,906	10,568,570	2,049,130
Noncurrent Assets				
Capital Assets--Net of Accumulated Depreciation	2,371,763		2,371,763	12,225,058
Total Assets	9,579,427	3,360,906	12,940,333	14,274,188
<u>LIABILITIES</u>				
Current Liabilities				
Accounts Payable	96,765	991	97,756	87,770
Due to Other Units of Government	-		-	58,411
Due to State	25,477		25,477	
Deposits Payable	933	1,842	2,775	
Accrued Interest Payable			-	5,200
Accrued Liabilities	58,930		58,930	32,376
Contingent Loan commitments			-	199,358
Noncurrent Liabilities				
Advances From State			-	151,964
Deferred Revenue	1,509,724		1,509,724	135,709
Bonds Payable--Due Within One Year			-	20,000
Bonds Payable--Due in More Than One year	-	600,000	600,000	156,000
Installment Loans Payable--Due Within One Year			-	565,892
Installment Loans Payable--Due in More Than One Year			-	385,771
Postclosure Landfill Costs--Due Within One Year	4,535		4,535	
Postclosure Landfill Costs--Due in More Than One Year	65,048		65,048	
Vested Employee Benefits Payable				
Due in More Than One Year	383,959		383,959	222,605
Total Liabilities	2,145,371	602,833	2,748,204	2,021,056
<u>NET ASSETS</u>				
Investment in Capital Assets--Net of Related Debt	2,371,763		2,371,763	11,268,195
Restricted for				
Special Purposes	2,572,239		2,572,239	4,400
County Roads			-	980,537
Unrestricted	2,490,054	2,758,073	5,248,127	
Total Net Assets	\$ 7,434,056	\$ 2,758,073	\$ 10,192,129	\$ 12,253,132

The Notes to Financial Statements are an integral part of this statement.

ALCONA COUNTY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007

EXHIBIT B

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	PRIMARY GOVERNMENT			Component Units
					Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental Activities								
General Government	\$ 2,355,617	\$ 579,243	\$ 519,156	\$ 10,206	\$ (1,247,012)		\$ (1,247,012)	
Public Safety	2,575,450	719,291	79,265	25,000	(1,751,894)		(1,751,894)	
Public Works	16,422	1	-		(16,421)		(16,421)	
Health and Welfare	1,633,570	398,354	134,728		(1,100,488)		(1,100,488)	
Community and Economic Development	238,824	-	189,300		(49,524)		(49,524)	
Recreation and Culture	467,112	126,702	38,356		(302,054)		(302,054)	
Other	157,348	-			(157,348)		(157,348)	
Interest on Long-Term Debt	1,118				(1,118)		(1,118)	
Total Governmental Activities	7,445,461	1,823,591	960,805	35,206	(4,625,859)	\$ -	(4,625,859)	
Business-Type Activities								
Delinquent Tax Revolving Fund	10,728	112,256				101,528	101,528	
Delinquent Tax Fund 2006	1,260	69,934				68,674	68,674	
Delinquent Tax Property Sales	39,540	203,983				164,443	164,443	
Non-major Enterprise funds	47,150	52,945	11,605			17,400	17,400	
Total Business-Type Activities	98,678	439,118	11,605	-	-	352,045	352,045	
Total Primary Government	\$ 7,544,139	\$ 2,262,709	\$ 972,410	\$ 35,206	\$ (4,625,859)	\$ 352,045	\$ (4,273,814)	
Component Units								
Road Commission	\$ 3,323,896	\$ 621,106	\$ 2,525,872	\$ 2,834,298				\$ 2,657,380
Interest on Long-Term Debt	45,945							(45,945)
Board of Public Works								
Public Works			8,800					8,800
Interest on Long-Term Debt	9,275							(9,275)
Total Component Units	\$ 3,369,841	\$ 621,106	\$ 2,534,672	\$ 2,834,298	\$ -	\$ -	\$ -	\$ 2,610,960
General Revenues								
Property Taxes					\$ 4,411,612		\$ 4,411,612	
Interest Earnings						\$ 135,995	135,995	
Unrestricted Investment Earnings					282,437		282,437	
Rentals					2,175		2,175	
Other Revenues							-	\$ 13,886
Transfers					1,250,710	(1,250,710)	-	
Extrodinary Item--Recovery From Loss					141,055	(12,264)	128,791	
Total General Revenues--Special Items and Transfers					6,087,989	(1,126,979)	4,961,010	13,886
Change in Net Assets					1,462,130	(774,934)	687,196	2,624,846
Net Assets--Beginning					5,948,836	3,533,007	9,481,843	9,623,411
Restatement to Net Assets					23,090		23,090	4,875
Restated Net Assets--Beginning					5,971,926	3,533,007	9,504,933	9,628,286
Net Assets--Ending					\$ 7,434,056	\$ 2,758,073	\$ 10,192,129	\$ 12,253,132

The Notes to Financial Statements are an integral part of this statement.

**ALCONA COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2007**

EXHIBIT C

	General Fund	Ambulance Fund	Housing Commission Administration	Revenue Sharing Reserve Fund	Non-Major Governmental Funds	Total Governmental Funds
<u>ASSETS</u>						
Cash and Cash Equivalents	\$ 204,023	\$ 7,186	\$ 73,389	\$ 314,515	\$ 602,078	\$ 1,201,191
Investments	427,915	6,399		1,633,220	150,885	2,218,419
Receivables						
Taxes--Current Levy	242,560	706,061			803,663	1,752,284
Accounts	18,078				29,093	47,171
Patient Receivables		342,659				342,659
Loans			1,261,937		-	1,261,937
Due From State	3,454				221,242	224,696
Due From Other Funds--Primary Government	203,848	12,000			-	215,848
Advances to Other Funds--Primary Government					35,000	35,000
Total Assets	\$ 1,099,878	\$ 1,074,305	\$ 1,335,326	\$ 1,947,735	\$ 1,841,961	\$ 7,299,205
<u>LIABILITIES AND FUND EQUITY</u>						
Liabilities						
Accounts Payable	\$ 53,173	\$ 5,519			\$ 38,073	\$ 96,765
Due to Other Funds--Primary Government	12,000				44,541	56,541
Due to State	25,477				-	25,477
Accrued Liabilities	29,048	19,374			10,508	58,930
Escrow Payable			\$ 933		-	933
Long Term Advance					35,000	35,000
Deferred Revenue--Taxes	181,960	706,061			803,663	1,691,684
Deferred Revenue--Other		342,659	1,261,937		23,898	1,628,494
Total Liabilities	301,658	1,073,613	1,262,870	\$ -	955,683	3,593,824
Fund Equity						
Fund Balances						
Reserved for						
Ambulance Services		692				692
Revenue Sharing Reserve				1,947,735		1,947,735
Community and Economic Development			72,456			72,456
Capital Projects					42	42
Non-Major Special Revenue Programs					835,555	835,555
Long-Term Advances to Other Funds					35,000	35,000
Unreserved--Undesignated	798,220				15,681	813,901
Total Fund Equity	798,220	692	72,456	1,947,735	886,278	3,705,381
Total Liabilities and Fund Equity	\$ 1,099,878	\$ 1,074,305	\$ 1,335,326	\$ 1,947,735	\$ 1,841,961	\$ 7,299,205

The Notes to Financial Statements are an integral part of this statement.

**ALCONA COUNTY
RECONCILIATION OF FUND BALANCES ON THE
BALANCE SHEET FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
December 31, 2007**

Fund Balances--Total Governmental Funds	\$ 3,705,381
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Add--Capital Assets	5,767,212
Deduct--Accumulated Depreciation	<u>(3,395,449)</u>

Net Capital Asset Addition	<u>2,371,763</u>
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Revenues that do not provide current financial resources are not reported as revenue in the funds.

Add: Deferred Revenues for Loans Receivable	1,261,937
Add: Deferred Revenues for Ambulance Patient Receivables	342,659
Add: Deferred Revenues for Friend of the Court	23,898
Add: Deferred Revenues for General Fund Operating Summer Taxes	181,960

Certain liabilities, such as compensated absences are not due and payable in the current period. Therefore, they are not reported in the funds' statement.

Deduct--Long-Term Debt	(69,583)
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Deduct--Compensated Absences and Other Long-Term Liabilities	<u>(383,959)</u>
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Net Assets of Governmental Activities	<u><u>\$ 7,434,056</u></u>
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The Notes to Financial Statements are an integral part of this statement.

ALCONA COUNTY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2007

EXHIBIT D

	General Fund	Ambulance Fund	Housing Commission Administration	Revenue Sharing Reserve Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues						
Taxes and Penalties	\$ 2,973,895	\$ 666,396			\$ 589,361	\$ 4,229,652
Licenses and Permits	3,935				-	3,935
Federal Grants	104,714				196,463	301,177
State Grants	360,189				246,796	606,985
Contributions From Local Units	2,543					2,543
Charges for Services	596,092	353,449			648,949	1,598,490
Fines and Forfeitures	16,993				104,830	121,823
Interest and Rentals	172,169	6,400	\$ 5,602	\$ 33,187	67,255	284,613
Other Revenue Loss Due to Misappropriation of Assets	141,054				-	141,054
Other Revenue	41,810	978	44,872		45,967	133,627
Total Revenues	4,413,394	1,027,223	50,474	33,187	1,899,621	7,423,899
Expenditures						
Current						
General Government	2,119,237				229,628	2,348,865
Public Safety	1,763,807				715,166	2,478,973
Public Works					19,992	19,992
Health and Welfare	207,911	938,462			427,269	1,573,642
Community and Economic Development			1,895		237,305	239,200
Recreation and Cultural	5,659				400,738	406,397
Other	157,348				-	157,348
Capital Outlay	25,000				30,564	55,564
Debt Service						
Principal		31,038			-	31,038
Interest and Fiscal Fees		1,118			-	1,118
Total Expenditures	4,278,962	970,618	1,895	-	2,060,662	7,312,137
Excess of Revenues Over (Under) Expenditures	134,432	56,605	48,579	33,187	(161,041)	111,762
Other Financing Sources (Uses)						
Interfund Transfers In						
Primary Government	1,547,161	12,000			564,783	2,123,944
Interfund Transfers (Out)						
Primary Government	(424,983)		(151,100)	(206,451)	(90,700)	(873,234)
Total Other Financing Sources (Uses)	1,122,178	12,000	(151,100)	(206,451)	474,083	1,250,710
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	1,256,610	68,605	(102,521)	(173,264)	313,042	1,362,472
Fund Balance (Deficit)--January 1, 2007	(458,390)	(67,913)	174,977	2,120,999	573,236	2,342,909
Fund Balance--December 31, 2007	\$ 798,220	\$ 692	\$ 72,456	\$ 1,947,735	\$ 886,278	\$ 3,705,381

The Notes to Financial Statements are an integral part of this statement.

ALCONA COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007

EXHIBIT D-1

Net Change in Fund Balances--Total Governmental Funds \$ 1,362,472

Amounts reported for governmental activities in the Statement of Activities are different because:

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Change in Deferred Revenue Housing Commission Loans	6,130
Change in Deferred Revenue Ambulance Patient Receivables	20,994
Change in Deferred Revenue Due From State	23,898
Change in Deferred Revenue--Summer Property Tax	181,960

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Add--Capital Outlay	55,564
Deduct--Depreciation Expense	(221,783)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Add--Principal Payments on Long-Term Liabilities	31,038
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Some expenses reported in the Statement of Activities do not require the use of current financial resources. Therefore, they are not reported as expenditures in the funds.

Subtract: Increase in the accrual of compensated absences	(1,713)
Add: Decrease in postclosure landfill costs	3,570

Change in Net Assets of Governmental Activities	<u>\$ 1,462,130</u>
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The Notes to Financial Statements are an integral part of this statement.

**ALCONA COUNTY
STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
DECEMBER 31, 2007**

EXHIBIT E

BUSINESS-TYPE ACTIVITIES

	Delinquent Tax Revolving	Delinquent Tax 2006	Delinquent Tax Property Sales	Non-Major Enterprise Funds	Total Enterprise Funds
<u>ASSETS</u>					
Current Assets					
Cash and Cash Equivalents	\$ 671,477	\$ 76,053	\$ 99,156	\$ 16,797	\$ 863,483
Investments	926,491	200,000	720,045	4,661	1,851,197
Delinquent Taxes Receivable	67,306	540,724			608,030
Due From Other Funds	234,696				234,696
Due From Other Units of Government	19,655				19,655
Total Assets	<u>\$ 1,919,625</u>	<u>\$ 816,777</u>	<u>\$ 819,201</u>	<u>\$ 21,458</u>	<u>\$ 3,577,061</u>
<u>LIABILITIES</u>					
Current Liabilities					
Accounts Payable			\$ 991		\$ 991
Due to Other Funds	-	\$ 216,155			216,155
Deposits Payable				\$ 1,842	1,842
Total Current Liabilities	<u>\$ -</u>	<u>216,155</u>	<u>991</u>	<u>1,842</u>	<u>218,988</u>
Noncurrent Liabilities					
Bonds Payable		600,000			600,000
Total Noncurrent Liabilities	<u>-</u>	<u>600,000</u>	<u>-</u>	<u>-</u>	<u>600,000</u>
Total Liabilities	<u>-</u>	<u>816,155</u>	<u>991</u>	<u>1,842</u>	<u>818,988</u>
<u>NET ASSETS</u>					
Unrestricted	<u>1,919,625</u>	<u>622</u>	<u>818,210</u>	<u>19,616</u>	<u>2,758,073</u>
Total Net Assets	<u>\$ 1,919,625</u>	<u>\$ 622</u>	<u>\$ 818,210</u>	<u>\$ 19,616</u>	<u>\$ 2,758,073</u>

The Notes to Financial Statements are an integral part of this statement.

ALCONA COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS--ENTERPRISE FUNDS
For the Year Ended December 31, 2007

EXHIBIT F

	BUSINESS-TYPE ACTIVITIES				
	Delinquent Tax Revolving	Delinquent Tax 2006	Delinquent Tax Property Sales	Non-Major Enterprise Funds	Total Enterprise Funds
Operating Revenues					
Charges for Services	\$ 20,478	\$ 38,795	\$ 203,983	\$ 47,723	\$ 310,979
Interest on Delinquent Taxes	91,778	31,139			122,917
Other				5,222	5,222
Total Operating Revenues	112,256	69,934	203,983	52,945	439,118
Operating Expenses					
Salaries and Wages				5,718	5,718
Contractual Services				12,535	12,535
Materials and Supplies	19,397	4,856	39,540	14,992	78,785
Equipment Repair and Maintenance				1,692	1,692
Casualty and Liability Costs				12,213	12,213
Total Operating Expenses	19,397	4,856	39,540	47,150	110,943
Operating Income (Loss)	92,859	65,078	164,443	5,795	328,175
Nonoperating Revenues (Expenses)					
State Grant				11,605	11,605
Interest Earned on Investments	98,549		37,225	221	135,995
Total Nonoperating Revenues (Expenses)	98,549	-	37,225	11,826	147,600
Income (Loss) Before Contributions and Transfers	191,408	65,078	201,668	17,621	475,775
Interfund Transfers					
Transfers In	1,291,831	200,000			1,491,831
Transfers (Out)	(2,478,085)	(264,456)			(2,742,541)
Total Interfund Transfers	(1,186,254)	(64,456)	-	-	(1,250,710)
Change in Net Assets	(994,846)	622	201,668	17,621	(774,935)
Total Net Assets--January 1, 2007	2,914,471	-	616,542	1,995	3,533,008
Total Net Assets--December 31, 2007	\$ 1,919,625	\$ 622	\$ 818,210	\$ 19,616	\$ 2,758,073

The Notes to Financial Statements are an integral part of this statement.

ALCONA COUNTY
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
For the Year Ended December 31, 2007

EXHIBIT G

	BUSINESS-TYPE ACTIVITIES				
	Delinquent Tax Revolving	Delinquent Tax 2006	Delinquent Tax Property Sales	Non-Major Enterprise Funds	Total Enterprise Funds
Cash Flows From Operating Activities					
Cash Received From Customers	\$ 20,478	\$ 31,139	\$ 203,983	\$ 47,723	\$ 303,323
Other Cash Receipts		2,769		5,222	7,991
Interest on Delinquent Taxes	91,778	36,026			127,804
Delinquent Taxes Purchased		(1,367,559)			(1,367,559)
Delinquent Taxes Collected	530,155	826,835			1,356,990
Cash Payments to Employees for Services and Benefits				(2,723)	(2,723)
Cash Payments to Suppliers for Goods and Services	(19,397)	(4,856)	(40,539)	(44,427)	(109,219)
Net Cash Provided by Operating Activities	623,014	(475,646)	163,444	5,795	316,607
Cash Flows From Noncapital Financing Activities					
State Grants				11,605	11,605
Due From Other Funds--Primary	2,315,879		400,000		2,715,879
Due to Other Funds--Primary	(361,844)	216,155		(500)	(146,189)
Due From Other Units of Government	(19,655)				(19,655)
Due to State	(199,382)				(199,382)
Due to Other Units of Government	(68,758)				(68,758)
Inmate Deposits Payable				(2,000)	(2,000)
Transfers In (Out)	(1,186,254)	(64,456)			(1,250,710)
Net Cash Provided by Noncapital Financing Activities	479,986	151,699	400,000	9,105	1,040,790
Cash Flows From Capital and Related Financing Activities					
Proceeds From Bonds		600,000			600,000
Net Cash Provided by Capital and Related Financing Activities	-	600,000	-	-	600,000
Cash Flows From Investing Activities					
Interest on Cash Equivalents	98,547		37,225	221	135,993
Sale or (Purchase) of Investments	(921,893)	(200,000)	(408,060)	(220)	(1,530,173)
Net Cash Provided by Investing Activities	(823,346)	(200,000)	(370,835)	1	(1,394,180)
Net Increase (Decrease) in Cash and Cash Equivalents	279,654	76,053	192,609	14,901	563,217
Cash and Cash Equivalents at Beginning of Year	391,823	-	(93,453)	1,896	300,266
Cash and Cash Equivalents at End of Year	\$ 671,477	\$ 76,053	\$ 99,156	\$ 16,797	\$ 863,483
Reconciliation of Operating Income to Net Cash Provided by Operating Activities					
Operating Income (Loss)	\$ 92,859	\$ 65,078	\$ 164,443	\$ 5,795	\$ 328,175
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities					
(Increase) Decrease in Delinquent Taxes Receivable	530,155	(540,724)			(10,569)
Increase (Decrease) in Accounts Payable			(999)	-	(999)
Net Cash Provided by Operating Activities	\$ 623,014	\$ (475,646)	\$ 163,444	\$ 5,795	\$ 316,607

The Notes to Financial Statements are an integral part of this statement.

ALCONA COUNTY
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
December 31, 2007

EXHIBIT H

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	<u>\$ 539,482</u>
Total Assets	<u><u>\$ 539,482</u></u>
<u>LIABILITIES</u>	
Liabilities	
Due to Other Funds	\$ 177,848
Due to State of Michigan	48,262
Due to Other Units of Government	(407)
Undistributed Tax Collections	251,569
Bonds Restitutions and Payable to Individuals	37,183
Other Trust Payable	21,266
Other Payroll Liabilities	2,774
Undistributed Penal Fines	<u>987</u>
Total Liabilities	<u><u>\$ 539,482</u></u>

The Notes to Financial Statements are an integral part of this statement.

COUNTY OF ALCONA
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
December 31, 2007

EXHIBIT I

<u>ASSETS</u>	<u>GOVERNMENTAL ACTIVITIES</u>		
	Road Commission	Board of Public Works	Total
Current Assets			
Cash and Cash Equivalents	\$ 366,776	\$ 24,400	\$ 391,176
Investments	238,653		238,653
Receivables			
Sundry Accounts	3,990		3,990
Special Assessments	8,435		8,435
Due From State	887,209		887,209
Due From Other Governmental Units	101,991	156,000	257,991
Inventories	261,676		261,676
Total Current Assets	1,868,730	180,400	2,049,130
Noncurrent Assets			
Capital Assets (Net of Accumulated Depreciation)	12,225,058		12,225,058
Total Noncurrent Assets	12,225,058	-	12,225,058
Total Assets	14,093,788	180,400	14,274,188
<u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable	87,770		87,770
Due to Other Units	58,411		58,411
Due to State	151,964		151,964
Accrued Liabilities	32,376		32,376
Deferred Revenue	135,709		135,709
Interest Payable	5,200		5,200
Contingent Loan Commitments	199,358		199,358
Total Current Liabilities	670,788	-	670,788
Noncurrent Liabilities			
Bonds Payable			
Due Within One Year		20,000	20,000
Due in More Than One Year		156,000	156,000
Installment Purchase Agreements Payable			
Due Within One Year	565,892		565,892
Due in More Than One Year	385,771		385,771
Vested Employee Benefits Payable	222,605		222,605
Total Noncurrent Liabilities	1,174,268	176,000	1,350,268
Total Liabilities	1,845,056	176,000	2,021,056
<u>NET ASSETS</u>			
Invested in Capital Assets--Net of Related Debt	11,268,195		11,268,195
Restricted for			
County Roads	980,537		980,537
Debt Service		4,400	4,400
Total Net Assets	\$ 12,248,732	\$ 4,400	\$ 12,253,132

The Notes to Financial Statements are an integral part of this statement.

ALCONA COUNTY
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
Year Ended December 31, 2007

EXHIBIT J

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Road Commission	Board of Public Works	Total
Governmental Activities							
Road Commission							
Public Works	\$ 3,323,896	\$ 621,106	\$ 2,525,872	\$ 2,834,298	\$ 2,657,380		\$ 2,657,380
Interest on Related Debt	45,945				(45,945)		(45,945)
Total Road Commission	3,369,841	621,106	2,525,872	2,834,298	2,611,435	\$ -	2,611,435
Board of Public Works							
Public Works			8,800			8,800	8,800
Interest on Related Debt	9,275					(9,275)	(9,275)
Total Board of Public Works	\$ 9,275	\$ -	\$ 8,800	\$ -	-	(475)	(475)
General Revenues							
Other Revenues					13,886		13,886
Total General Revenues					13,886	-	13,886
Change in Net Assets					2,625,321	(475)	2,624,846
Net Assets--Beginning of Year					9,623,411	4,875	9,628,286
Net Assets--End of Year					\$ 12,248,732	\$ 4,400	\$ 12,253,132

The Notes to Financial Statements are an integral part of this statement.

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Alcona County conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies:

REPORTING ENTITY

Alcona County, Michigan, was organized May 8, 1869 and covers an area of 679 square miles divided into 11 townships, 1 city and 1 village. The county is governed by an elected five member board of commissioners and provides services to its more than 11,719 residents in many areas including law enforcement, administration of justice, community enrichment and development, and human services.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present Alcona County (the primary government) and its component units. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data was not included. The component unit, discussed below, is included in the county's financial reporting entity because of the significance of their operational or financial relationships with the county.

Discretely Presented Component Units

The component unit columns in the combined financial statements include the financial data of the Alcona County Board of Public Works and the Alcona County Road Commission. These financial statements are reported in separate columns to emphasize that they are legally separate from the county.

Alcona County Board of Public Works

Pursuant to Michigan Compiled Law (MCL) 123.732 (Public Act 185 of 1957), the County of Alcona entered into a contract with the City of Harrisville, through its Board of Public Works, to finance a portion of the costs for sewage collection and treatment facilities. The Department of Public Works is under the general control of the county board of commissioners and under the immediate control of a Board of Public Works. The Board of Public Works is comprised of three (3) members which is the Alcona County Board of Road Commissioners appointed by the county board of commissioners. The Board of Public Works is considered an agency of the county. The board manages water supply and sanitary sewer system construction projects that are bonded by the County of Alcona. Bonds issued are authorized by an ordinance or a resolution approved by the Board of Public Works and adopted by the Alcona County Board of Commissioners. Special assessments are levied by the local units of government on benefited properties and are forwarded to the county for payment of principal and interest. The combining financial statements for the Board of Public Works are presented as part of the exhibits for the discretely presented component units.

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Road Commission

The Alcona County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an appointed 3-member board of county road commissioners. The Road Commission may not issue debt or levy property taxes without the county board of commissioners' approval. The Road Commission's property taxes are levied under the taxing authority of the county, as approved by the county electors, are included as part of the county's total tax levy and are reported in the County Road Fund. The Road Commission deposits receipts with the county. The Road Commission also has investments through the county.

Complete audited or unaudited financial statements of the individual component units can be obtained from their respective administrative offices or from the county clerk's office at the courthouse.

Administrative Offices

Alcona County Clerk
106 Fifth Street
Harrisville, Michigan 48740

Alcona County Department of Public Works
106 Fifth Street
Harrisville, Michigan 48740

Alcona County Road Commission
301 North Lake Street,
Lincoln, Michigan 48742

JOINT OPERATIONS

District Health Department

The counties of Ogemaw, Oscoda, Iosco and Alcona participate jointly in the operation of the District Health Department. The board is appointed and operates autonomously to provide various health services to residents in these counties. The financial operations of the District Health Department are recorded in the records of the Ogemaw County Health Fund.

The funding formula approved by the member counties is based pro rata on each unit's population and equalized valuation to the district's total population and valuation. Alcona County's appropriation to the District Health Department for 2007 was \$90,038.

Complete financial statements for the District Health Department can be obtained from the district's administrative offices at 630 Progress Street, West Branch, Michigan 48661.

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related Organizations

Alcona County Commission on Aging

Alcona County Commission on Aging is a nonprofit corporation. The commission is a legally separate organization established for providing and promoting services to the aged and disabled. The voters approved a special millage to fund the Commission on Aging.

The commission consists of the entire geographic area of Alcona County. It is governed by nine voting board members and four other representatives that bring the total to 13 board members. Members serve for up to two consecutive 3-year terms and are elected by a majority of the presiding board. Upon dissolution, all assets shall be distributed for one or more exempt purposes.

Alcona County does levy a tax to provide services to older persons. Revenues from the tax are accounted for in a special revenue fund. An agreement for services to older persons was entered into with the Alcona County Commission on Aging.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resource measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Ambulance Fund accounts for the collection of a separate tax millage and user fees that are used to fund the operations of ambulance services.

The Revenue Sharing Reserve Fund accounts for revenue from the former December tax levy that was last recorded as revenue in this fund in the calendar year 2006. Subsequent to calendar year 2006, the entire county tax was a summer tax levy that was accounted for in the General Fund.

The Housing Commission Administration Fund accounts for the administration of Federal grant funds, program income and transfers to the Housing Fund.

ALCONA COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government reports the following major proprietary funds:

The Delinquent Tax Revolving Fund accounts for the purchase of delinquent taxes from other local taxing units.

The 2006 Delinquent Tax Fund accounts for the purchase of delinquent taxes from other local taxing units and their subsequent collection from the taxpayer.

The Delinquent Tax Property Sales Fund accounts for the sales and costs related to the delinquent tax reversion process.

Additionally, the county reports the following fund type:

Agency funds are used to account for assets held for other governments in an agency capacity, including tax collections.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the delinquent tax revolving and the delinquent tax property sales enterprise funds are interest collected on delinquent taxes and the sale of foreclosed property. Operating expenses for enterprise funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the county's policy to use restricted resources first, then unrestricted resources as they are needed.

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, Cash Equivalents, and Investments

For purposes of the statement of cash flows, demand deposits and short-term investments with maturity of three months or less when acquired are considered to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value.

Taxes Receivable--Current

In accordance with Public Act 357 of 2004, which provides a funding mechanism to serve as a substitute for revenue sharing payments from the state to the county, the Revenue Sharing Reserve Fund transferred \$206,451 to the General Fund. This substitute funding mechanism involves a gradual shift, over three years, of county property tax millage from a winter tax levy to a summer tax levy. The entire county operating tax is levied on July 1st each year beginning in 2007.

The county property tax is levied on each July 1st for the general operating millage and December 1st for all other special voted millages based on the taxable valuation of the property located in the county as of the preceding December 31st. The 2007 State equalized valuation of Alcona County amounted to \$1,065,283,800 and the taxable valuation is \$725,131,678, on which ad valorem taxes of 4.1925 mills were approved and levied for county operating purposes, .4948 mills for senior citizens programs, .4677 mills for county library, .9737 mills for county ambulance service, and .1458 mills for HUNT.

Although the county's 2007 ad valorem taxes are levied and collectible on December 1st, for the special voted millages, it is the county's policy to recognize revenue from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of the county operations. The general operating millage is earned and collected during 2007 and the property taxes received during 2007 and the first 60 days of 2008 have been recognized as current property taxes.

The portion of the taxes that were not received by the end of the 60 days after December 31st is reported as deferred revenue. The current property taxes receivable and deferred revenue is as follows at December 31, 2007:

	<u>Taxes Receivable</u>	<u>Deferred Revenue</u>
Fund		
General Fund--Operating Tax	\$ 242,560	\$ 181,960
Commission on Aging	358,795	358,795
Library	339,144	339,144
Ambulance	706,061	706,061
HUNT	105,724	105,724
Totals	<u>\$1,752,284</u>	<u>\$1,691,684</u>

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes Receivable--Delinquent

The delinquent taxes receivable recorded in the Delinquent Tax Revolving Fund consist of uncollected real property taxes levied prior to 2007.

The delinquent real property taxes may be summarized as follows:

<u>Tax Year</u>	<u>Real Property Tax</u>
2001	\$ 1,210
2002	4,305
2004	3,189
2005	58,602
2006	<u>540,724</u>
Total	<u>\$608,030</u>

From 2000 to 2005, the county had the policy of purchasing the delinquent personal property taxes from the local unit. In 2007, the county charged back the local units for all uncollected personal property taxes.

Special Assessments

The Road Commission collects special assessments from adjacent property owners for improvements to Fawn Drive in Deer View Subdivision, Hawes Township. The assessments are a fixed amount of \$8,333 per year plus interest and expires in 2009.

Receivables and Payables

All receivables and payables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Due To/From Other Funds

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advances to Other Funds

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Inventory

Inventories of expendable supplies have not been recorded and the amount of any such inventories is not considered material. The cost of such inventories has been treated as an expenditure at the time of purchase. Inventory for the Road Commission is valued at cost as determined on the average unit cost method. Inventory items are charged to road construction, maintenance, equipment repairs and operations as they are used.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, curbs and gutters, streets, sidewalks, drainage systems, lighting systems and similar assets that are immovable and of value only to the County of Alcona), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (\$1,000 for the Road Commission) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Infrastructure assets for the Road Commission include all roads and bridges acquired subsequent to January 1, 2005. Infrastructure assets acquired prior to that date are not reported in the basic financial statements.

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major outlays for capital assets and improvements are capitalized as projects when constructed. Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

Building and Improvements	30-50 years
Land Improvements	3-20 years
Equipment	4-20 years
Fixtures and Furniture	15-20 years
Vehicles	3-5 years
Infrastructure--Roads	8-30 years
Infrastructure--Bridges	12-50 years

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

Compensated Absences

Vacation and sick day policies for County employees are determined by union contracts. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, which requires the county board of commissioners to approve budgets for the General Fund and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Budgets are adopted by the county board of commissioners for the General Fund and special revenue funds. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The General Fund budget is adopted at the activity level and control is exercised at that level. The special revenue funds' budgets are adopted at the functional level and control is exercised at that level. The county board of commissioners has authorized the county treasurer to make budget transfers between line items when necessary, without increasing the overall budget and with the transfers to be subsequently presented to the board for their review and approval. All Budget appropriations lapse at year end.

Budget Violations

Public Act 2 of 1968, Section 19(1), as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The county's actual expenditures for the funds budgeted have been shown on an activity basis for the General Fund and function basis for special revenue funds. The approved budgets of the county were adopted at the activity level for the General Fund and at the function level for special revenue funds.

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

During the fiscal year ended December 31, 2007, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund and special revenue funds as follows:

<u>Fund, Function and Activity</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
General Government			
Board of Commissioners	\$ 141,960	\$ 198,383	\$ (56,423)
Multicounty Circuit Court	219,380	235,105	(15,725)
County Clerk	198,410	209,439	(11,029)
Prosecuting Attorney	216,124	223,951	(7,827)
Register of Deeds	160,873	165,964	(5,091)
County Treasurer	143,154	149,170	(6,016)
Courthouse and Grounds	161,588	171,024	(9,436)
Cost Allocation Plan	1,300	2,001	(701)
Health and Welfare			
Medical Examiner	7,260	19,580	(12,320)
Multicounty Mental Health	35,454	44,318	(8,864)
Cigarette Tax Distribution		3,992	(3,992)
Brownfield Redevelopment		455	(455)
Other			
Longevity Pay	5,000	7,500	(2,500)
Workers' Compensation Insurance	7,000	20,292	(13,292)
Heath Insurance Premiums		1,000	(1,000)
State Institutions		3,048	(3,048)
Miscellaneous		872	(872)
Capital Outlay		25,000	(25,000)
Transfers to Other Funds	319,269	424,983	(105,714)
Special Revenue Funds			
Revenue Sharing Reserve	205,655	206,451	(796)
Ambulance	930,782	970,618	(39,836)
DPW Landfill	3,500	3,796	(296)
Budget Stabilization		80,000	(80,000)
Local Correction Officers Training	3,500	5,923	(2,423)
Housing Commission Administration	45,000	152,995	(107,995)
Housing Commission Revolving	157,500	211,460	(53,960)
D.A.R.E.	1,000	1,405	(405)
Victim Services		1,361	(1,361)
Veterans Trust	1,500	4,203	(2,703)
Public Guardian	23,150	28,775	(5,625)
Sick and Vacation		27,554	(27,554)

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Legal Non-Compliance/Violation of Finance Related Provisions

The General Obligation Limited Tax Notes, Series 2007 Taxable Obligations required the county to establish a "2007 Revolving Fund" to pay off the uncollected 2006 delinquent real property taxes on or after November 1, 2007 and it be deposited directly in to the County's 2007 Note Payment Account established within the 2007 Revolving Fund. The county has not established a "2007 Delinquent Tax Revolving Fund" or established a separate bank account and the investment earnings were not deposited directly in the County's 2007 Note Payment Account.

Noncompliance with PA 2 of 1968

The Commission on Aging Fund was not established, there are two property tax millages for the commission on aging operations and maintenance. The delinquent tax funds use the 600 fund numbers (internal service), Delinquent Tax Property Sales Fund 254 (a special revenue fund number), Housing Administration Fund 875, Housing Revolving Fund 878 and Inmate Welfare Fund 285 fund numbers do not conform to the Uniform Chart of Accounts numbers for these funds.

NOTE C--CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The county has designated various financial institutions for deposit of the county funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 and has authorized investment in accordance with the State statutory authority as listed above.

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH AND INVESTMENTS (Continued)

At year end, Alcona County's deposits and investments were reported in the basic financial statements in the following categories:

	Carrying Amounts				
<u>Cash and Deposits</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash and Cash Equivalents	\$ 1,201,191	\$ 863,483	\$ 539,482	\$ 2,604,156	\$ 391,176
Investments	2,218,419	1,851,197		4,069,616	238,653
Total	<u>\$ 3,419,610</u>	<u>\$ 2,714,680</u>	<u>\$ 539,482</u>	<u>\$ 6,673,772</u>	<u>\$ 629,829</u>

	Bank Balances				
<u>Cash and Deposits</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash and Cash Equivalents	\$ 1,546,155	\$ 1,113,184	\$ 690,449	\$ 3,349,788	\$ 503,972
Investments	2,218,409	1,851,189		4,069,598	238,653
Imprest Cash	1,880			1,880	250
Total	<u>\$ 3,766,444</u>	<u>\$ 2,964,373</u>	<u>\$ 690,449</u>	<u>\$ 7,421,266</u>	<u>\$ 742,875</u>

The bank balance of the primary government's deposits is \$3,339,478, of which \$136,751 is covered by Federal depository insurance. The component units' deposits had a bank balance of \$503,972 of which \$131,456 s covered by Federal depository insurance.

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH AND INVESTMENTS (Continued)

Investments Authorized by the County's Investment Policy

The county's investment policy only authorizes investment in all those that are authorized by law. The county invests their money in obligations explicitly guaranteed by the U.S. government, money market funds, investment pools and certificate of deposits. Listed below is a summary of the investments and ratings, if applicable, at December 31, 2007:

<u>Investment</u>	<u>Fair Value</u>	<u>FDIC Insured</u>	<u>Rating</u>	<u>Rating Organization</u>
Multi-Bank Securities, Inc.				
Certificate of Deposits	\$ 2,207,640	\$ 1,242,596		
Cash	12,245			
Government Agencies	497,183			
MBIA--Asset Mgt Group--CLASS	261,933		AAA	Fitch
Morgan Chase Governmental Money Market Fund	178,401			
LaSalle Bank Public Funds Investment Trust	15,433			
NatCity Investments				
Cash and Cash Equivalents	198,719			
Government Agencies	254,267			
American Freedom US Government Money Market	109,830			
Wachovia Money Market Fund	93,001			
Huron Community Bank--Money Market Fund	5,723			
Central Macomb Credit Union--5 yr CD	100,000			
Citigroup Global--Money Market Fund	373,894			
Total Investments	<u>\$ 4,308,269</u>			

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the county manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment by local units of government. Interest rate risk does not apply to a local government's investment in mutual funds, external investment pools or other pooled investments.

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment policy of the County contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH AND INVESTMENTS (Continued)

Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investments pools and other pooled investments are excluded from this requirement.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the county's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the county's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

NOTE D--RECEIVABLES

Receivables as of year end for the primary government's individual major and aggregate nonmajor funds, and component units, including the offset to deferred revenue, are as follows:

	Primary Government				
	General Fund	Ambulance Fund	Housing Commission Administration Fund	Non-Major Governmental Funds	Total
Receivable					
Accounts	\$ 18,078	\$ 342,659		\$ 29,093	\$ 389,830
Loans Receivable			\$ 1,261,937		1,261,937
Due From State	3,454			221,242	224,696
Total	<u>\$ 21,532</u>	<u>\$ 342,659</u>	<u>\$ 1,261,937</u>	<u>\$ 250,335</u>	<u>\$ 1,876,463</u>
Deferred Revenue		<u>\$ 342,659</u>	<u>\$ 1,261,937</u>	<u>\$ 23,898</u>	<u>\$ 1,628,494</u>

ALCONA COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE D--RECEIVABLES (Continued)

Receivables for the component units are as follows:

	Component Units		
	Road Commission	Department of Public Works	Total Component Units
Due From State of Michigan	\$ 887,209		\$ 887,209
Due From Other			
Governmental Units	101,991	\$156,000	257,991
Sundry Accounts	3,990		3,990
Special Assessments	8,435		8,435
Total	<u>\$1,001,625</u>	<u>\$156,000</u>	<u>\$1,157,625</u>
Deferred Revenue	<u>\$ 135,709</u>	<u>\$ -</u>	<u>\$ 135,709</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

NOTE E--INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS

The amounts of interfund receivables and payables for the primary government are as follows:

<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	\$ 203,848	Trust and Agency Non-Major Governmental Funds	\$177,848 26,000
Ambulance	12,000	General Fund	12,000
Delinquent Tax Revolving	234,696	Delinquent Tax Fund 2006 Non-Major Governmental Fund	216,155 18,541
Total Primary Government	<u>\$ 450,544</u>	Total Primary Government	<u>\$450,544</u>

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE E--INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS

(Continued)

The long-term advances to other funds, which represent long-term interfund receivables and payables that are not available to finance current operations, are as follows:

<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Advances To/From Other Funds			
Non-Major Governmental	<u>\$35,000</u>	Non-Major Governmental	<u>\$35,000</u>
Total Primary Government	<u><u>\$35,000</u></u>	Total Primary Government	<u><u>\$35,000</u></u>

The 2007 operating transfers from Exhibits D and F can be summarized as follows for the primary government and component units:

Interfund Transfers

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers (Out)</u>
Primary Government		Primary Government	
General	\$ 1,547,161	General	\$ 424,983
Ambulance	12,000	Revenue Sharing Reserve	206,451
		Housing Commission Admin	151,100
Non-Major Governmental	564,783	Non-Major Governmental	90,700
Delinquent Tax Revolving	1,291,831	Delinquent Tax Revolving	2,478,085
Delinquent Tax Fund 2006	<u>200,000</u>	Delinquent Tax Fund 2006	<u>264,456</u>
Total Primary Government	<u><u>\$ 3,615,775</u></u>		<u><u>\$ 3,615,775</u></u>

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

	Account Balances 01/01/07	Additions	Deductions	Account Balances 12/31/07
Capital Assets Not Being Depreciated				
Land	\$ 175,500			\$ 175,500
Subtotal	175,500	\$ -	\$ -	175,500
Capital Assets Being Depreciated				
Land Improvements	130,807	10,206		141,013
Buildings	3,870,230	5,000		3,875,230
Equipment	1,026,941	25,000		1,051,941
Furniture and Fixtures	48,538	15,358		63,896
Vehicles	459,632			459,632
Note 1				
Total	5,536,148	55,564	-	5,591,712
Less Accumulated Depreciation				
Land Improvements	31,510	7,051		38,561
Buildings	2,036,070	81,591		2,117,661
Equipment	703,208	73,567		776,775
Furniture and Fixtures	18,684	4,409		23,093
Vehicles	384,194	55,165		439,359
Total	3,173,666	221,783	-	3,395,449
Net Capital Assets Being Depreciated	2,362,482	(166,219)	-	2,196,263
Total Net Capital Assets	\$ 2,537,982	\$ (166,219)	\$ -	\$ 2,371,763

Note 1: The beginning balance has been adjusted by \$27,965 to reflect the actual historical costs of vehicles on hand.

Depreciation expense was charged to programs of the primary government as follows:

	Amount
Governmental Activities	
General Government	\$ 32,328
Public Safety	83,989
Health and Welfare	44,376
Recreation and Cultural	61,090
Total Depreciation Expense	\$ 221,783

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)Road Commission--Discretely Presented Component Unit

	Account Balances 01/01/07	Additions	Deductions	Account Balances 12/31/07
Capital Assets Not Being Depreciated				
Land	\$ 91,689			\$ 91,689
Land Improvements--Infrastructure	2,871,340	\$ 1,705,655		4,576,995
Subtotal	2,963,029	1,705,655	\$ -	4,668,684
Capital Assets Being Depreciated				
Land Improvements	65,691			65,691
Buildings	664,002	51,086		715,088
Road Equipment	4,644,389			4,644,389
Shop Equipment	61,174			61,174
Office Equipment	69,784			69,784
Engineers' Equipment	8,538			8,538
Depletable Assets	95,995			95,995
Infrastructure--Bridges	5,735,227			5,735,227
Infrastructure--Roads	3,249,208	1,128,643		4,377,851
Subtotal	14,594,008	1,179,729	-	15,773,737
Less Accumulated Depreciation				
Land Improvements	65,691			65,691
Buildings	428,564	24,374		452,938
Road Equipment	3,907,039	294,856		4,201,895
Shop Equipment	52,032	2,405		54,437
Office Equipment	55,106	4,282		59,388
Engineers' Equipment	7,218	785		8,003
Depletable Assets	95,995			95,995
Infrastructure--Bridges	2,518,216	141,212		2,659,428
Infrastructure--Roads	301,964	317,624		619,588
Subtotal	7,431,825	785,538	-	8,217,363
Net Capital Assets Being Depreciated	7,162,183	394,191	-	7,556,374
Total Net Capital Assets	\$ 10,125,212	\$ 2,099,846	\$ -	\$ 12,225,058

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Depreciation expense as charged to operations of the Alcona County Road Commission is as follows:

Primary Road Preventive Maintenance	\$ 221,989
Local Road Preventive Maintenance	236,847
Net Equipment Expense	294,856
Ne Administrative Expense	5,067
Allocated	<u>26,779</u>
Total Depreciation Expense	<u>\$ 785,538</u>

NOTE G--LONG-TERM DEBT

The county issues bonds to provide for the acquisition and construction of major capital improvements. General obligation bonds are direct obligations and pledge the full faith and credit of the county. County contractual agreements and installment purchase agreements are also general obligations of the county. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Bond and contractual obligation activity can be summarized as follows:

	<u>Balance 01/01/07</u>	<u>Additions (Reductions)</u>	<u>Balance 12/31/07</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>				
Postclosure Landfill	\$ 73,153	\$ (3,570)	\$ 69,583	\$ 4,535
Note Payable--ambulance with cost of \$118,500 and payments of \$32,156 beginning August 1, 2004 and ending August 2007 at an interest rate of 2.3%	31,038	(31,038)	-	
Accrued Employee Benefits Payable	<u>382,246</u>	<u>1,713</u>	<u>383,959</u>	<u>383,959</u>
Total Governmental Activities	<u>\$ 486,437</u>	<u>\$ (32,895)</u>	<u>\$ 453,542</u>	<u>\$ 388,494</u>
<u>Business Type Activity</u>				
General Obligation Limited Tax Note 2007 to fund the 2007 Revolving Tax Fund in the amount of \$600,000 payments to be made from 100% of 2006 Delinquent Tax Collections to be paid in full by December 19, 2009 at an interest rate of 5.625%		\$ 600,000	\$ 600,000	
Total Business Type Activities	<u>\$ -</u>	<u>\$ 600,000</u>	<u>\$ 600,000</u>	<u>\$ -</u>
Total Primary Government	<u>\$ 486,437</u>	<u>\$ 567,105</u>	<u>\$1,053,542</u>	<u>\$ 388,494</u>

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

The debt service requirements to maturity for the county's primary governmental debt obligations outstanding at December 31, 2007 are as follows:

In the governmental activities, compensated absences and the postclosure landfill liability are generally liquidated by the General Fund.

Annual Debt Service Requirements--Business Type Activities

General Obligation Limited Tax Notes, Series 2007, to fund the 2006 Revolving Tax Fund in the amount of \$600,000 at an interest rate of 5.625%. The notes are secured by a pledge of all 2006 property taxes that were due on or before March 1, 2007 and that remained delinquent, outstanding and uncollected on November 1, 2007; all statutory interest on such delinquent taxes; all property tax administration fees on such delinquent taxes, once expenses of this borrowing have been paid; any amounts hereafter paid to the county by taxing units within the county because of the uncollectability of such delinquent taxes; and investments earnings on all of the foregoing. Accrued interest shall be payable on the first day of each month, or the immediately succeeding business day if such date is a legal holiday or not a business day, commencing on February 1, 2008 and on the maturity date of the Notes. The interest is based on a fixed rate of 5.625% per annum. All balances owing must be paid by December 19, 2009 regardless of collections received.

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT (Continued)

	<u>Balance</u> <u>01/01/07</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>12/31/07</u>	<u>Due Within</u> <u>One Year</u>
<u>Component Unit Activities</u>				
<u>DPW</u>				
General Obligation Bond for the City of Harrisville Sewer project with a cost of \$462,000 requires semi-annual payments beginning July 1, 1976 and ending January 1, 2015 at interest rates from 5% to 8%	\$ 195,000	\$ (19,000)	\$ 176,000	\$ 20,000
<u>ROAD COMMISSION</u>				
State Infrastructure Bank Loan, principal due in annual installments of \$269,027, interest payments at a rate of 3%, due 2010	1,000,000	(429,728)	570,272	184,501
Installment payable to Finance Company, 3.76% interest rate, payable in monthly installments of \$1,363, secured by equipment	106,703	(12,870)	93,833	93,833
Installment payable to Finance Company, 3.5% interest rate, payable in monthly installments of \$994, secured by equipment	82,997	(9,184)	73,813	73,813
Installment payable to Finance Company, 5.56% interest rate, payable in monthly installments of \$1,607, secured by equipment	126,712	(14,206)	112,506	112,506
Installment payable to Finance Company, 5.56% interest rate, payable in monthly installments of \$1,465, secured by equipment	114,249	(13,010)	101,239	101,239
Accrued Employee Benefits Payable	<u>194,806</u>	<u>27,799</u>	<u>222,605</u>	
Total Road Commission	<u>\$ 1,625,467</u>	<u>\$ (451,199)</u>	<u>\$ 1,174,268</u>	<u>\$ 565,892</u>
Total Component Units	<u>\$ 1,820,467</u>	<u>\$ (470,199)</u>	<u>\$ 1,350,268</u>	<u>\$ 585,892</u>
Total Reporting Entity	<u>\$ 2,306,904</u>	<u>\$ 96,906</u>	<u>\$ 2,403,810</u>	<u>\$ 994,386</u>

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT (Continued)

The debt service requirements to maturity for the county's debt obligations outstanding at December 31, 2007 are as follows:

Annual Debt Service Requirements--Component Unit--Department of Public Works

General Obligation bond for the City of Harrisville sewer project with a cost of \$462,000 and requires semi-annual payments beginning July 1, 1976 and ending January 1, 2015 with interest rates from 5% to 8%.

<u>Year</u>	<u>January 1 Principal</u>	<u>January 1 Interest</u>	<u>July 1 Interest</u>	<u>Annual Total</u>
2008	\$ 20,000	\$ 4,400	\$ 3,900	\$ 28,300
2009	21,000	3,900	3,375	28,275
2010	22,000	3,375	2,825	28,200
2011	22,000	2,825	2,275	27,100
2012	22,000	2,275	1,725	26,000
2013-15	69,000	3,525	1,800	74,325
	<u>\$176,000</u>	<u>\$ 20,300</u>	<u>\$ 15,900</u>	<u>\$ 212,200</u>

Annual Debt Service Requirements--Component Unit--Road Commission

Annual principal debt service requirements for the Notes Payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 565,892	\$ 33,163
2009	190,036	11,573
2010	<u>195,735</u>	<u>5,872</u>
Total	<u>\$ 951,663</u>	<u>\$ 50,608</u>

During fiscal year 2007, the Road Commission executed a loan contract with the Michigan Department of Transportation to assist in financing transportation infrastructure improvements. The contract terms stipulated a loan amount not to exceed \$376,200 at a rate of interest of 4% per annum. The loan funds are restricted to use on specific projects only. Additionally, the agreement grants permission to the Michigan Department of Transportation to convert Federal advanced construction funds, when available, to repay the loan principal amounts, with final repayment required by March 2010. If repayment is not made by that date, the Michigan Department of Treasury is allowed to withhold monies from Michigan Transportation Funds in-lieu-of repayment. \$199,358 was owed at year end.

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE H--COMPENSATED ABSENCES

Vacation and Sick Leave Benefits Policies--Primary Government

The county's employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Vacation benefits earned are credited to each employee on a bi-weekly basis. The county has established a formal policy regarding a maximum authorized accumulation of vacation hours per individual union agreement.

The county's employment policies provide for sick leave benefits to be earned in varying amounts depending on the employee's hours worked and union agreements.

Vacation and Sick Leave Benefits Policies--Component Unit (Road Commission)

The Road Commission's policies regarding the accumulation and payment of vested employee benefits are as follows:

Vacation: Maximum carry-forward is 10 days each year. Unused vacation pay will be paid at current rates at date of employment separating. There was \$34,403 accrued at the year end, which was recorded as a liability in the government-wide financial statements.

Sick Leave: A maximum of 114 days can be accumulated. Unused sick leave will be paid at the current rates at the date of separation to 75% upon retirement, 50% upon death, and 25% upon separation with 10 years seniority. There was \$188,202 accrued at the year end, which was recorded as a liability in the government-wide financial statements.

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE H--COMPENSATED ABSENCES (Continued)

The amounts listed below for the primary government are reported on the Statement of Net Assets as a noncurrent liability in the governmental activities column.

	<u>Sick/ Vacation</u>
Vested Employee Benefits Payable--Primary Government	
General Government	
County General Employees	\$ 52,283
Housing Employee	8,665
Health and Welfare	
Ambulance Employees	39,656
Public Safety	
Building Department Employees	4,272
Sheriff Department Employees	219,112
E-911 Employees	43,681
Recreation and Cultural	
Library	<u>16,290</u>
Total Vested Employee Benefits Payable	
Primary Government	383,959
Vested Employee Benefits Payable--Component Unit	
Road Commission Employees	<u>222,605</u>
Total Vested Employee Benefits Payable	
Reporting Entity	<u><u>\$ 606,564</u></u>

NOTE I--EMPLOYEES' RETIREMENT PLANS

The county has two pension plans, a defined benefit and a defined contribution pension plan, both administered through Municipal Employees' Retirement System (MERS).

Description of the Plan and Plan Assets-Defined Benefit Plan

Alcona County is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS) administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The county's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% times the final average compensation for the Local 214/Courthouse and General Non-Union groups and 2.5% times the final average compensation for the Sheriff/Union, Senior Elected Officials, Senior Teamsters, Non-Elected, Sheriff and COAM groups. The most recent period for which actuarial data was available was for the fiscal period ended December 31, 2007.

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE I--EMPLOYEES' RETIREMENT PLANS (Continued)

MERS was organized pursuant to Section 12a of Public Act 156 of 1851 (MCL 46.12a), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The county is required to contribute at an actuarially determined rate. County employees are not required to make contributions to the pension plan, except for the Senior Teamsters and Non Elected groups, who are required to contribute 3% of their annual covered payroll. The county's pension contributions were 9.76%, 14.51%, 16.24%, 22.68%, 29.86%, 20.46%, 17.89% and 26% of the covered payroll at December 31, 2007 for the Local 214/Courthouse, Sheriff/Union, General Non-Union, Senior Elected Officers, Senior Teamsters, Non Elected, Sheriff, and COAM, respectively.

Annual Pension Costs

For the year ended December 31, 2007, the county's annual pension cost of \$312,357 for MERS was equal to the county's required and actual contributions. The required contribution rate was determined using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The county's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007, the date of the latest actuarial valuation, was 28 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2005	\$ 293,805	100%	\$ -
2006	343,617	100%	\$ -
2007	312,357	100%	\$ -

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE I--EMPLOYEES' RETIREMENT PLANS (Continued)

Schedule of Funding Progress

<u>Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/05	\$6,067,886	\$8,624,716	\$2,556,830	70.4%	\$ 1,791,628	143%
12/31/06	6,532,467	9,451,344	2,918,877	69.1%	1,751,913	167%
12/31/07	6,953,902	9,930,470	2,976,568	70.0%	1,638,192	182%

Defined Contribution Plan

Effective January 1, 2001, the county established a defined contribution pension plan for employees hired on and after that date for the Operating Engineers Local 547 (ambulance personnel) of Alcona County. The plan is with the MERS Uniform Defined Contribution program, which is administered by the ICMA Retirement Corporation Governmental Money Purchase Plan and Trust, as amended by and as authorized by Section 19A of the Municipal Employees' Retirement System of Michigan Plan Document.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. The authority under which the defined contribution plan is established or amended is by agreement with the union and county and specified in the adoption agreement subject to the provisions of MERS Plan Document Section 19A(2).

Contributions made by the county are vested at an incremental rate of 20% for each year until five full years, at which time it will be 100% vested. The county is required to contribute an amount equal to 6% of the employee's gross earnings. Employees are required to contribute 4% of their gross earnings. The county made contributions in 2007 totaling \$66,446 and \$43,421 by the employer and employee, respectively. There are currently 49 employees included in the plan.

EMPLOYEE RETIREMENT AND BENEFITS--ROAD COMMISSION

Defined Contribution Plan

The Road Commission contributes to the Alcona County Road Commission Retirement Plan, which is a defined contribution pension plan, fully funded through American Funds. The board of road commissioners is the trustee of the plan and the plan activity is presented as a pension trust fund in the Road Commission's financial statements.

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE I--EMPLOYEES' RETIREMENT PLANS (Continued)

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive.

Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

Contributions made by the Road Commission are vested at 100% immediately. The Road Commission is required to contribute an amount equal to 4% of the employee's gross earnings. Effective November 14, 2005, this contribution was increased to 5% in accordance with Article 11 of a new labor agreement negotiated with Teamsters Local 214. Effective July 2006, the contribution rate increased to 6.5%. Employees are not required to make contributions. The Road Commission made contributions in 2007 totaling \$70,197 based on employee wages of \$1,179,510. There are currently 31 employees included in the plan.

The Alcona County Road Commission Retirement Plan held no securities in or loans to parties related to the plan. The financial information for the pension plan was available through the American Funds annual statement as of December 31, 2007 for presentation in the basic financial statements.

NOTE J--DEFERRED COMPENSATION PLAN--ROAD COMMISSION (COMPONENT UNIT)

The Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Road Commission) for the purpose of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the financial statements.

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE K--POSTEMPLOYMENT BENEFITS--ROAD COMMISSION (COMPONENT UNIT)

Total premiums submitted on behalf of one retiree was \$1,000. Effective November 14, 2005, the Road Commission increased its contribution for retired employees at age 62, 63 or 64 from \$400 per year to \$1,000 per year for hospital, medical, and life insurance purposes until the retiree reaches age 65 in accordance with Article 19, section 4 of the Labor Agreement negotiated with Teamsters Local 214.

NOTE L--MUNICIPAL SOLID WASTE LANDFILL POSTCLOSURE CARE COSTS

The county operated a landfill, the Alcona County Landfill (the "Landfill"), which was "capped" on October 31, 1988, under Public Act No. 641 of 1978. The postclosure is presently governed by the State of Michigan Department of Environmental Quality (the "DEQ").

The landfill is no longer accepting solid waste. Under regulations set forth by the DEQ, the county is required to perform annual ground water monitoring at the landfill for a period of 30 years subsequent to its closure. In accordance with Governmental Accounting Standards Board Statement No. 18, "Municipal Solid Waste Landfill Closure and Postclosure Care Costs," management of the county has estimated the future postclosure costs expected to be incurred associated with the monitoring and the maintenance of the landfill.

Past costs have been financed through the proceeds of a land contract on the sale of a Landfill Transfer Station neighboring the landfill, which was sold several years ago. Future costs will be the responsibility of the county. Management anticipates that future monitoring costs will consist of only the costs associated with the ground water testing. Any liability related to any other costs, which may possibly be incurred, is not reasonably estimatable at this time and is not included in management's estimated liability. The estimated liability for expected postclosure costs as of December 31, 2007 is \$69,583.

NOTE M--RISK MANAGEMENT

Primary Government

The county is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The county's insurance carrier estimates that the potential claims against the county, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the county.

The county is self-insured for comprehensive liability, motor vehicle physical damage and comprehensive, property and crime coverage through the Michigan Municipal Risk Management Authority (the Authority). All other types of risk of loss are covered through commercial insurance.

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE M--RISK MANAGEMENT (Continued)

All liability claims up to \$75,000 per claim are paid from the net contribution account of the county held by the authority. In addition, after meeting certain deductible requirements, all vehicle claims up to \$15,000 per vehicle, up to \$30,000 per occurrence and property, and crime claims up to \$10,000 are also paid from the county's contribution account. The authority is responsible for any claims in excess of the above amounts up to a maximum limit of \$5,000,000.

The authority may make additional assessments to its member participants based upon the results of insurance pool operations.

Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

Road Commission (Component Unit)

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, trunkline liability and an umbrella policy. The amount the Road Commission pays annually is determined by the administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expenses incurred per occasion. All other risk is transferred to the pool.

NOTE N--FEDERAL GRANTS--ROAD COMMISSION (COMPONENT UNIT)

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended December 31, 2007, the federal aid received and expended by the Road Commission was \$943,637 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (included in MDOT's single audit). Local Federal Force Account Projects are projects where the Road Commission performs the work and would be subject to single audit requirements if they expended \$500,000 or more in Federal funds.

ALCONA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE O--RESTATED NET ASSETS

Restatements to beginning net assets for the reporting entity is as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Units</u>
Beginning Net Assets	\$5,948,836	\$3,533,007	\$ 9,623,411
Unrecorded Prior Year Capital Assets	27,965		
Board of Public Works was reported as a governmental activity in 2006 and should be a component unit Net Change in Net Assets	<u>(4,875)</u>	<u> </u>	<u>4,875</u>
Total Change in Beginning Net Assets	<u>23,090</u>	<u>-</u>	<u>4,875</u>
Restated Beginning Net Assets	<u><u>\$5,971,926</u></u>	<u><u>\$3,533,007</u></u>	<u><u>\$ 9,628,286</u></u>

ALCONA COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND--MAJOR FUND
For the Year Ended December 31, 2007

EXHIBIT K

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
Fund Balance (Deficit)--January 1, 2007	\$ (458,390)	\$ (458,390)	\$ (458,390)	-
Resources (Inflows)				
Property Taxes	3,069,009	3,069,009	2,973,895	\$ (95,114)
Licenses and Permits	4,400	4,400	3,935	(465)
Federal Grants	124,322	125,572	104,714	(20,858)
State Grants	598,538	598,538	360,189	(238,349)
Contributions From Local Units of Government	500	500	2,543	2,043
Charges for Services	535,100	540,100	596,092	55,992
Fines and Forfeitures	17,500	22,350	16,993	(5,357)
Interest and Rentals	81,000	81,000	172,169	91,169
Recovery From Extraordinary Loss			141,054	141,054
Other Revenue	49,000	62,671	41,810	(20,861)
Transfers From Other Funds	196,682	234,839	1,547,161	1,312,322
Amounts Available for Appropriation	4,217,661	4,280,589	5,502,165	1,221,576
Charges to Appropriations (Outflows)				
Current				
General Government	2,108,965	2,114,486	2,119,237	(4,751)
Public Safety	1,930,242	1,941,282	1,763,807	177,475
Health and Welfare	183,452	183,352	207,911	(24,559)
Recreation and Culture	-	8,210	5,659	2,551
Other	172,280	172,280	157,348	14,932
Capital Outlay	-	-	25,000	(25,000)
Transfers to Other Funds	281,112	319,269	424,983	(105,714)
Total Charges to Appropriations	4,676,051	4,738,879	4,703,945	34,934
Fund Balance--December 31, 2007	\$ (458,390)	\$ (458,290)	\$ 798,220	\$ 1,256,510

ALCONA COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
AMBULANCE--MAJOR SPECIAL REVENUE FUND
For the Year Ended December 31, 2007

EXHIBIT L

	<u>BUDGETED AMOUNTS</u>			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Revenues				
Taxes	\$ 641,895	\$ 641,895	\$ 666,396	\$ 24,501
Contributions From Local Units	2,000	2,000		(2,000)
Charges for Services	286,500	286,500	353,449	66,949
Interest and Rentals	350	350	6,400	6,050
Other Revenue			978	978
Total Revenues	930,745	930,745	1,027,223	96,478
Expenditures				
Current				
Health and Welfare	930,782	930,782	938,462	(7,680)
Debt Service				
Principal			31,038	(31,038)
Interest and Fiscal Fees			1,118	(1,118)
Total Expenditures	930,782	930,782	970,618	(39,836)
Excess of Revenues Over (Under) Expenditures	(37)	(37)	56,605	56,642
Other Financing Sources (Uses)				
Operating Transfers In--Primary Government			12,000	12,000
Total Other Financing Sources (Uses)	-	-	12,000	12,000
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(37)	(37)	68,605	68,642
Fund Balance (Deficit)--January 1, 2007	(67,913)	(67,913)	(67,913)	-
Fund Balance--December 31, 2007	\$ (67,950)	\$ (67,950)	\$ 692	\$ 68,642

ALCONA COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
HOUSING COMMISSION ADMINISTRATION
MAJOR SPECIAL REVENUE FUND
For the Year Ended December 31, 2007

EXHIBIT M

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Interest and Rents	\$ 2,000	\$ 2,500	\$ 5,602	\$ 3,102
Other	44,000	42,500	44,872	(2,372)
Total Revenues	46,000	45,000	50,474	730
Expenditures				
Current				
Community and Economic Development	2,000	2,000	1,895	105
Total Expenditures	2,000	2,000	1,895	105
Excess of Revenues Over (Under) Expenditures	44,000	43,000	48,579	730
Other Financing Sources (Uses)				
Operating Transfers (Out)--Primary Government	(43,000)	(43,000)	(151,100)	(108,100)
Total Other Financing Sources (Uses)	(43,000)	(43,000)	(151,100)	(108,100)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	1,000	-	(102,521)	(102,521)
Fund Balance (Deficit)--January 1, 2007	174,977	174,977	174,977	-
Fund Balance--December 31, 2007	\$ 175,977	\$ 174,977	\$ 72,456	\$ (102,521)

ALCONA COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
REVENUE SHARING RESERVE
MAJOR SPECIAL REVENUE FUND
For the Year Ended December 31, 2007

EXHIBIT N

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 205,655	\$ 205,655		\$ (205,655)
Interest and Rentals			\$ 33,187	33,187
Total Revenues	205,655	205,655	33,187	(172,468)
Excess of Revenues Over (Under) Expenditures	205,655	205,655	33,187	(172,468)
Other Financing Sources (Uses)				
Interfund Transfers (Out)	(205,655)	(205,655)	(206,451)	(796)
Total Other Financing Sources (Uses)	(205,655)	(205,655)	(206,451)	(796)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	(173,264)	(173,264)
Fund Balance (Deficit)--January 1, 2007	1,442,942	1,442,942	2,120,999	678,057
Fund Balance--December 31, 2007	\$ 1,442,942	\$ 1,442,942	\$ 1,947,735	\$ 504,793

ALCONA COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
December 31, 2007

EXHIBIT O

	SPECIAL REVENUE FUNDS							
	Park	Alcona Recreation Area	Friend of the Court	DPW Landfill	Discretionary	Building Inspection Fund	Register of Deeds Automation	Budget Stabilization
<u>ASSETS</u>								
Cash and Cash Equalivents	\$ 908	\$ 42	\$ 141	\$ 11	\$ 3,070	\$ 31,363	\$ 12,353	\$ 12,611
Investments	36,655						55,387	
Receivables								
Taxes								
Accounts								
Due From State of Michigan			29,154					
Advances To Other Funds					35,000			
Total Assets	\$ 37,563	\$ 42	\$ 29,295	\$ 11	\$ 38,070	\$ 31,363	\$ 67,740	\$ 12,611
<u>LIABILITIES AND FUND BALANCES</u>								
Liabilities								
Accounts Payable			\$ 227			\$ 5,722	\$ 2,100	
Due to Other Funds--Primary Government								
Accrued Liabilities			1,283			540		
Advances From Other Funds	\$ 35,000							
Deferred Revenue--Taxes								
Deferred Revenue--Other			23,898					
Total Liabilities	35,000	\$ -	\$ 25,408	\$ -	\$ -	\$ 6,262	\$ 2,100	\$ -
Fund Balances								
Reserved for Capital Projects								
Reserved for Special Revenue Programs	2,563	42	3,887	11		25,101	65,640	
Reserved for Advance					35,000			
Unreserved--Undesignated					3,070			12,611
Total Fund Balances	2,563	42	3,887	11	38,070	25,101	65,640	12,611
Total Liabilities and Fund Balances	\$ 37,563	\$ 42	\$ 29,295	\$ 11	\$ 38,070	\$ 31,363	\$ 67,740	\$ 12,611

**ALCONA COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
December 31, 2007**

**EXHIBIT O
(CONTINUED)**

	SPECIAL REVENUE FUNDS						
	Emergency 911	Local Correction Officers Training	County Library	Law Library	Library Memorial	Reiker Memorial	Housing Commission Revolving
<u>ASSETS</u>							
Cash and Cash Equivalents	\$ 48,985	\$ 560	\$ 117,931	\$ 144	\$ 12,405	\$ 958	\$ 9,352
Investments	12,605		33,142				
Receivables							
Taxes			339,144				\$ 358,795
Accounts	24,743		4,350				
Due From State of Michigan	23,884						103,322
Advances To Other Funds							
Total Assets	<u>\$ 110,217</u>	<u>\$ 560</u>	<u>\$ 494,567</u>	<u>\$ 144</u>	<u>\$ 12,405</u>	<u>\$ 958</u>	<u>\$ 358,795</u>
							<u>\$ 112,674</u>
<u>LIABILITIES AND FUND BALANCES</u>							
Liabilities							
Accounts Payable			\$ 7,440				
Due to Other Funds--Primary Government			18,541				
Accrued Liabilities	\$ 6,631		801				
Advances From Other Funds							
Deferred Revenue--Taxes			339,144				\$ 358,795
Deferred Revenue--Other							
Total Liabilities	<u>6,631</u>	<u>\$ -</u>	<u>365,926</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>358,795</u>
							<u>\$ -</u>
Fund Balances							
Reserved for Capital Projects							
Reserved for Special Revenue Programs	103,586	560	128,641	144	12,405	958	112,674
Reserved for Advance							
Unreserved--Undesignated							
Total Fund Balances	<u>103,586</u>	<u>560</u>	<u>128,641</u>	<u>144</u>	<u>12,405</u>	<u>958</u>	<u>-</u>
							<u>112,674</u>
Total Liabilities and Fund Balances	<u>\$ 110,217</u>	<u>\$ 560</u>	<u>\$ 494,567</u>	<u>\$ 144</u>	<u>\$ 12,405</u>	<u>\$ 958</u>	<u>\$ 358,795</u>
							<u>\$ 112,674</u>

ALCONA COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
December 31, 2007

EXHIBIT O
(CONTINUED)

	SPECIAL REVENUE FUNDS								
	Harbortown Marketplace	Economic Development Commission	Law Enforcement	D.A.R.E.	Michigan Justice Training	H.U.N.T.	Victim Services	Social Welfare	Probate Child Care
<u>ASSETS</u>									
Cash and Cash Equivalents	\$ 33,127	\$ 6,662	\$ 4,516	\$ 2,849	\$ 6,545	\$ 115,845	\$ 2,905	\$ 39,273	\$ 13,671
Investments						13,096			
Receivables									
Taxes						105,724			
Accounts									
Due From State of Michigan									19,421
Advances To Other Funds									
Total Assets	\$ 33,127	\$ 6,662	\$ 4,516	\$ 2,849	\$ 6,545	\$ 234,665	\$ 2,905	\$ 39,273	\$ 33,092
<u>LIABILITIES AND FUND BALANCES</u>									
Liabilities									
Accounts Payable		\$ 876				\$ 7,600			\$ 13,574
Due to Other Funds--Primary Government									
Accrued Liabilities						841			188
Advances From Other Funds									
Deferred Revenue--Taxes						105,724			
Deferred Revenue--Other									
Total Liabilities	\$ -	876	\$ -	\$ -	\$ -	114,165	\$ -	\$ -	13,762
Fund Balances									
Reserved for Capital Projects									
Reserved for Special Revenue Programs	33,127	5,786	4,516	2,849	6,545	120,500	2,905	39,273	19,330
Reserved for Advance									
Unreserved--Undesignated									
Total Fund Balances	33,127	5,786	4,516	2,849	6,545	120,500	2,905	39,273	19,330
Total Liabilities and Fund Balances	\$ 33,127	\$ 6,662	\$ 4,516	\$ 2,849	\$ 6,545	\$ 234,665	\$ 2,905	\$ 39,273	\$ 33,092

ALCONA COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
December 31, 2007

EXHIBIT O
(CONTINUED)

	SPECIAL REVENUE FUNDS						CAPITAL PROJECTS FUNDS		
	Veterans Trust	Sheriff Pay Phone	Family Counseling	Public Guardian	Remonumentation	Sick and Vacation	Equipment and Replacement	General Capital Projects	Total
<u>ASSETS</u>									
Cash and Cash Equivalents	\$ 383	\$ 20,162	\$ 715	\$ 511	\$ 917	\$ 103,121		\$ 42	\$ 602,078
Investments									150,885
Receivables									
Taxes									803,663
Accounts									29,093
Due From State of Michigan	446				45,015				221,242
Advances To Other Funds									35,000
Total Assets	\$ 829	\$ 20,162	\$ 715	\$ 511	\$ 45,932	\$ 103,121	\$ -	\$ 42	\$ 1,841,961
<u>LIABILITIES AND FUND BALANCES</u>									
Liabilities									
Accounts Payable		\$ 265		\$ 269					\$ 38,073
Due to Other Funds--Primary Government					\$ 26,000				44,541
Accrued Liabilities				224					10,508
Advances From Other Funds									35,000
Deferred Revenue--Taxes									803,663
Deferred Revenue--Other									23,898
Total Liabilities	\$ -	265	\$ -	493	26,000	\$ -	\$ -	\$ -	955,683
Fund Balances									
Reserved for Capital Projects								42	42
Reserved for Special Revenue Programs	829	19,897	715	18	19,932	103,121	-		835,555
Reserved for Advance									35,000
Unreserved--Undesignated									15,681
Total Fund Balances	829	19,897	715	18	19,932	103,121	-	42	886,278
Total Liabilities and Fund Balances	\$ 829	\$ 20,162	\$ 715	\$ 511	\$ 45,932	\$ 103,121	\$ -	\$ 42	\$ 1,841,961

ALCONA COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2007

EXHIBIT P

SPECIAL REVENUE FUNDS								
	Park	Alcona Recreation Area	Friend of the Court	DPW Landfill	Discretionary	Building Inspection Fund	Register of Deeds Automation	Budget Stabilization
Revenues								
Taxes								
Federal Grants			\$ 75,799					
State Grants	\$ 23,162							
Charges for Services			7,314			\$ 192,621	\$ 21,385	
Interest and Rents	3,558	\$ 54	74	\$ 1		1,102	2,822	
Fines and Forfeits								
Other	200				\$ 15,885	43		
Total Revenues	26,920	54	83,187	1	15,885	193,766	24,207	\$ -
Expenditures								
Current								
General Government			105,223				14,554	
Public Safety						197,345		
Public Works				3,796	16,196			
Health and Welfare								
Community and Economic Development								
Recreation and Cultural	22,326	2,533						
Capital Outlay								
Total Expenditures	22,326	2,533	105,223	3,796	16,196	197,345	14,554	-
Excess of Revenues Over (Under) Expenditures	4,594	(2,479)	(22,036)	(3,795)	(311)	(3,579)	9,653	-
Other Financing Sources (Uses)								
Operating Transfers In--Primary Government		2,500	5,000	3,570				
Operating Transfers (Out)--Primary Government					(10,700)			(80,000)
Total Other Financing Sources (Uses)	-	2,500	5,000	3,570	(10,700)	-	-	(80,000)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	4,594	21	(17,036)	(225)	(11,011)	(3,579)	9,653	(80,000)
Fund Balance (Deficit)--January 1, 2007	(2,031)	21	20,923	236	49,081	28,680	55,987	92,611
Fund Balance--December 31, 2007	\$ 2,563	\$ 42	\$ 3,887	\$ 11	\$ 38,070	\$ 25,101	\$ 65,640	\$ 12,611

ALCONA COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2007

EXHIBIT P
(CONTINUED)

	SPECIAL REVENUE FUNDS							
	Emergency 911	Local Correction Officers Training	County Library	Law Library	Library Memorial	Reiker Memorial	Commission on Aging	Housing Commission Revolving
Revenues								
Taxes			\$ 322,851				\$ 165,759	
Federal Grants								\$ 120,664
State Grants			14,994					17,634
Charges for Services	\$ 381,763	\$ 4,190	13,322					
Interest and Rents	8,209	15	6,587	\$ 2	\$ 316			
Fines and Forfeits			102,330	2,500				
Other			6,788		3,762	\$ 500		
Total Revenues	389,972	4,205	466,872	2,502	4,078	500	165,759	138,298
Expenditures								
Current								
General Government				2,397				
Public Safety	450,614	5,923						
Public Works								
Health and Welfare							165,759	
Community and Economic Development								211,460
Recreation and Cultural			375,314		452	113		
Capital Outlay								
Total Expenditures	450,614	5,923	375,314	2,397	452	113	165,759	211,460
Excess of Revenues Over (Under) Expenditures	(60,642)	(1,718)	91,558	105	3,626	387	-	(73,162)
Other Financing Sources (Uses)								
Operating Transfers In--Primary Government								151,100
Operating Transfers (Out)--Primary Government								
Total Other Financing Sources (Uses)	-	-	-	-	-	-	-	151,100
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(60,642)	(1,718)	91,558	105	3,626	387	-	77,938
Fund Balance (Deficit)--January 1, 2007	164,228	2,278	37,083	39	8,779	571	-	34,736
Fund Balance--December 31, 2007	\$ 103,586	\$ 560	\$ 128,641	\$ 144	\$ 12,405	\$ 958	\$ -	\$ 112,674

ALCONA COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2007

EXHIBIT P
(CONTINUED)

	SPECIAL REVENUE FUNDS								
	Harbortown Marketplace	Economic Development Commission	Law Enforcement	D.A.R.E.	Michigan Justice Training	H.U.N.T.	Victim Services	Social Welfare	Probate Child Care
Revenues									
Taxes						\$ 100,751			
Federal Grants									
State Grants			\$ 810		\$ 3,445				\$ 104,619
Charges for Services									
Interest and Rents	\$ 36,955		132	\$ 110	144	4,070		\$ 2,116	
Fines and Forfeits									
Other					275		\$ 2,903		5,405
Total Revenues	36,955	\$ -	942	110	3,864	104,821	2,903	2,116	110,024
Expenditures									
Current									
General Government									
Public Safety				1,405	1,071	55,164	1,361		
Public Works									
Health and Welfare								5,523	223,009
Community and Economic Development	18,863	6,982							
Recreation and Cultural									
Capital Outlay									
Total Expenditures	18,863	6,982	-	1,405	1,071	55,164	1,361	5,523	223,009
Excess of Revenues Over (Under) Expenditures	18,092	(6,982)	942	(1,295)	2,793	49,657	1,542	(3,407)	(112,985)
Other Financing Sources (Uses)									
Operating Transfers In--Primary Government		17,660							235,616
Operating Transfers (Out)--Primary Government									
Total Other Financing Sources (Uses)	-	17,660	-	-	-	-	-	-	235,616
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	18,092	10,678	942	(1,295)	2,793	49,657	1,542	(3,407)	122,631
Fund Balance (Deficit)--January 1, 2007	15,035	(4,892)	3,574	4,144	3,752	70,843	1,363	42,680	(103,301)
Fund Balance--December 31, 2007	\$ 33,127	\$ 5,786	\$ 4,516	\$ 2,849	\$ 6,545	\$ 120,500	\$ 2,905	\$ 39,273	\$ 19,330

ALCONA COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2007

EXHIBIT P
(CONTINUED)

	SPECIAL REVENUE FUNDS						CAPITAL PROJECTS FUNDS		
	Veterans Trust	Sheriff Pay Phone	Family Counseling	Public Guardian	Remonumentation	Sick and Vacation	Equipment and Replacement	General Capital Projects	Total
Revenues									
Taxes									\$ 589,361
Federal Grants									196,463
State Grants	\$ 4,332				\$ 77,800				246,796
Charges for Services		\$ 10,826	\$ 1,465	\$ 16,063					648,949
Interest and Rents		527			424		\$ 37		67,255
Fines and Forfeits									104,830
Other								\$ 10,206	45,967
Total Revenues	4,332	11,353	1,465	16,063	78,224	\$ -	37	10,206	1,899,621
Expenditures									
Current									
General Government			750		75,025	27,554	4,125		229,628
Public Safety		2,283							715,166
Public Works									19,992
Health and Welfare	4,203			28,775					427,269
Community and Economic Development									237,305
Recreation and Cultural									400,738
Capital Outlay							15,358	15,206	30,564
Total Expenditures	4,203	2,283	750	28,775	75,025	27,554	19,483	15,206	2,060,662
Excess of Revenues Over (Under) Expenditures	129	9,070	715	(12,712)	3,199	(27,554)	(19,446)	(5,000)	(161,041)
Other Financing Sources (Uses)									
Operating Transfers In--Primary Government				21,737			113,500	14,100	564,783
Operating Transfers (Out)--Primary Government									(90,700)
Total Other Financing Sources (Uses)	-	-	-	21,737	-	-	113,500	14,100	474,083
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	129	9,070	715	9,025	3,199	(27,554)	94,054	9,100	313,042
Fund Balance (Deficit)--January 1, 2007	700	10,827	-	(9,007)	16,733	130,675	(94,054)	(9,058)	573,236
Fund Balance--December 31, 2007	\$ 829	\$ 19,897	\$ 715	\$ 18	\$ 19,932	\$ 103,121	\$ -	\$ 42	\$ 886,278

ALCONA COUNTY
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR ENTERPRISE FUNDS
December 31, 2007

EXHIBIT Q

	<u>BUSINESS-TYPE ACTIVITIES</u>		
	Fair Board	Jail Commissary	Total Non-Major Funds
<u>ASSETS</u>			
Current Assets			
Cash and Cash Equivalents	\$ 14,030	\$ 2,767	\$ 16,797
Investments	4,661		4,661
Total Assets	<u>\$ 18,691</u>	<u>\$ 2,767</u>	<u>\$ 21,458</u>
<u>LIABILITIES</u>			
Current Liabilities			
Deposits Payable		\$ 1,842	\$ 1,842
Total Current Liabilities	<u>\$ -</u>	<u>1,842</u>	<u>1,842</u>
<u>NET ASSETS</u>			
Unrestricted	<u>18,691</u>	<u>925</u>	<u>19,616</u>
Total Net Assets	<u>\$ 18,691</u>	<u>\$ 925</u>	<u>\$ 19,616</u>

ALCONA COUNTY
COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS
NON-MAJOR ENTERPRISE FUNDS
For the Year Ended December 31, 2007

EXHIBIT R

	BUSINESS-TYPE ACTIVITIES		Total Non-Major Enterprise Funds
	Fair Board	Jail Commissary	
Operating Revenues			
Charges for Services	\$43,363	\$ 4,360	\$ 47,723
Other	5,222		5,222
Total Operating Revenues	48,585	4,360	52,945
Operating Expenses			
Wages	2,723	2,995	5,718
Materials and Supplies	14,992		14,992
Contracted Services	12,535		12,535
Insurance	12,213		12,213
Repairs	1,692		1,692
Total Operating Expenses	44,155	2,995	47,150
Operating Income (Loss)	4,430	1,365	5,795
Nonoperating Revenues (Expenses)			
State Operating Grants	11,605		11,605
Interest Earned on Investments	221		221
Total Nonoperating Revenues (Expenses)	11,826	-	11,826
Change in Net Assets	16,256	1,365	17,621
Total Net Assets--January 1, 2007	2,435	(440)	1,995
Total Net Assets--December 31, 2007	\$18,691	\$ 925	\$ 19,616

ALCONA COUNTY
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR ENTERPRISE FUNDS
For the Year Ended December 31, 2007

EXHIBIT S

	<u>BUSINESS-TYPE ACTIVITIES</u>		
	Fair Board	Jail Commissary	Total Enterprise Funds
Cash Flows From Operating Activities			
Cash Received From Customers	\$ 43,363	\$ 4,360	\$ 47,723
Other Cash Receipts	5,222		5,222
Cash Payments to Employees for Services and Benefits	(2,723)		(2,723)
Cash Payments to Suppliers for Goods and Services	(41,432)	(2,995)	(44,427)
Net Cash Provided by Operating Activities	4,430	1,365	5,795
Cash Flows From Noncapital Financing Activities			
State Grants	11,605		11,605
Inmate Deposits Payable		(2,000)	(2,000)
Due to Other Funds		(500)	(500)
Net Cash Provided by Noncapital Financing Activities	11,605	(2,500)	9,105
Cash Flows From Investing Activities			
Interest on Cash Equivalents	221		221
Sale or (Purchase) of Investments	(220)	-	(220)
Net Cash Provided by Investing Activities	1	-	1
Net Increase (Decrease) in Cash and Cash Equivalents	16,036	(1,135)	14,901
Cash and Cash Equivalents at Beginning of Year	(2,006)	3,902	1,896
Cash and Cash Equivalents at End of Year	<u>\$ 14,030</u>	<u>\$ 2,767</u>	<u>\$ 16,797</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ 4,430	\$ 1,365	\$ 5,795
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Increase (Decrease) in Payables		-	-
Net Cash Provided by Operating Activities	<u>\$ 4,430</u>	<u>\$ 1,365</u>	<u>\$ 5,795</u>

ALCONA COUNTY
COMBINING STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
December 31, 2007

EXHIBIT T

<u>AGENCY FUNDS</u>			
	General	Library	
	Agency	(Penal Fines)	
		Fund	Total
<u>ASSETS</u>			
Cash	\$ 538,495	\$ 987	\$ 539,482
Total Assets	\$ 538,495	\$ 987	\$ 539,482
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities			
Due to Other Funds	\$ 177,848		\$ 177,848
Due to State of Michigan	48,262		48,262
Due to Other Units of Government	(407)		(407)
Undistributed Tax Collections	251,569		251,569
Bonds Restitutions and Payable to Individuals	37,183		37,183
Other Trust Payable	21,266		21,266
Other Payroll Liabilities	2,774		2,774
Undistributed Penal Fines		\$ 987	987
Total Liabilities	\$ 538,495	\$ 987	\$ 539,482

ALCONA COUNTY
SCHEDULE OF REVENUES AND OTHER SOURCES--BY SOURCE
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2007

EXHIBIT U

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes				
Current Property Taxes	\$ 3,039,909	\$ 3,039,909	\$ 2,918,207	\$ (121,702)
Unpaid Personal Property Taxes	1,500	1,500	1,713	213
Payments in-Lieu-of Taxes	25,000	25,000	44,334	19,334
Trailer Park Taxes	100	100	84	(16)
Interest on Taxes	2,500	2,500	9,557	7,057
Total Taxes	3,069,009	3,069,009	2,973,895	(95,114)
Licenses and Permits				
Dog Licenses	2,000	2,000	2,022	22
Marriage Licenses	500	500	315	(185)
Pistol Permits	1,500	1,500	1,248	(252)
Boat Livery Tags	400	400	350	(50)
Total Licenses and Permits	4,400	4,400	3,935	(465)
Federal Grants				
Marine Safety	17,000	17,000	762	(16,238)
Prosecuting Attorney--Cooperative Reimbursement Program	23,000	23,000	13,540	(9,460)
Youth/family Surveillance	12,000	12,000	6,556	(5,444)
Emergency Services	6,200	7,450	26,382	18,932
Homeland Security--CORE Grant	-	-	25,000	25,000
SACO Grant--Drug Court	30,000	30,000	20,121	(9,879)
School Liaison Officer	36,122	36,122	12,353	(23,769)
Total Federal Grants	124,322	125,572	104,714	(20,858)
State Grants				
Probate Judges Salaries	150,622	150,622	103,408	(47,214)
Court Juvenile Officer	27,317	27,317	27,317	-
Snowmobile Safety Program	2,500	2,500	-	(2,500)
Secondary Road Patrol Program	55,000	55,000	35,513	(19,487)
Drunk Driving Caseflow Assistance	3,000	3,000	4,488	1,488
Prosecuting Attorney--Child Abuse and Neglect	-	-	965	965
Prosecution and Investigation Fee	7,000	7,000	9,101	2,101
Jury Fee Reimbursements	1,299	1,299	994	(305)
LEPC Public Awareness	200	200	-	(200)
Court Equity	65,145	65,145	65,410	265
Judges' Salary Standardization	-	-	45,724	45,724
Voter Registration	300	300	170	(130)
Drug Court Fees	-	-	829	829
Crime Victim Rights Services	12,000	12,000	2,600	(9,400)
Victims Services Unit	10,000	10,000	1,000	(9,000)
DNA Testing	100	100	45	(55)
Sex Offender Registration	400	400	-	(400)
State Cigarette Tax	-	-	5,656	5,656
State Revenue Sharing	205,655	205,655	-	(205,655)
Liquor License Fee	4,000	4,000	4,265	265
State Liquor Tax	54,000	54,000	52,704	(1,296)
Total State Grants	598,538	598,538	360,189	(238,349)
Contributions From Local Units of Government	500	500	2,543	2,043
Total Contributions From Local Units of Government	500	500	2,543	2,043
Charges for Services				
Circuit Court Costs	17,000	17,000	21,426	4,426
District Court Costs	150,000	150,000	138,725	(11,275)
Bond Costs	3,500	3,500	3,370	(130)
District Court Fees	16,000	16,000	25,325	9,325
Court Appointed Attorney Fees	19,200	19,200	27,585	8,385

ALCONA COUNTY
SCHEDULE OF REVENUES AND OTHER SOURCES--BY SOURCE
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2007

EXHIBIT U
(CONTINUED)

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Charges for Services (Continued)				
Probation Fees	31,500	31,500	31,624	124
Friend of the Court Fees	250	250	3	(247)
Circuit Court Fees	4,500	4,500	4,691	191
Clerk Services	15,000	15,000	17,421	2,421
Probate Court Fees	6,000	6,000	10,094	4,094
Equalization Services	5,000	5,000	2,624	(2,376)
Treasurer's Services	2,500	2,500	3,372	872
GIS Mapping Revenue	1,000	6,000	14,670	8,670
Aerial Photos	15,000	15,000	-	(15,000)
Real Estate Transfer Tax	49,140	49,140	42,819	(6,321)
Register of Deed's Fees	106,000	106,000	96,443	(9,557)
Plat Book Sales	3,500	3,500	3,268	(232)
Remonumentation	290	290	230	(60)
Child Care Collection Fees	700	700	1,723	1,023
CVF 10% Fee	30	30	29	(1)
CVF Services	2,500	2,500	2,880	380
Sheriff Services	21,190	21,190	27,519	6,329
Employee Meals	100	100	408	308
Salvage Vehicle Inspection	400	400	300	(100)
Record Copying	1,300	1,300	2,723	1,423
Computer Services	25,000	25,000	21,997	(3,003)
Inmates' Room and Board	38,500	38,500	94,823	56,323
Total Charges for Services	535,100	540,100	596,092	55,992
Fines and Forfeitures				
Bond Forfeitures	15,000	15,000	9,733	(5,267)
Bail Bond Collection Fees	2,500	2,500	2,410	(90)
Ordinance Fines and Costs	-	4,850	4,850	-
Total Fines and Forfeitures	17,500	22,350	16,993	(5,357)
Interest and Rents				
Interest Earned	65,000	65,000	164,072	99,072
Dividend--MCWCF	6,000	6,000	5,922	(78)
Library Rents	10,000	10,000	2,175	(7,825)
Total Interest and Rents	81,000	81,000	172,169	91,169
Other Revenue				
Sale of Capital Assets	5,000	5,000	1	(4,999)
Contributions From Private Sources	-	8,210	8,726	516
Election Reimbursements	4,000	4,000	4,102	102
Recovery From Extraordinary Loss	-	-	141,054	141,054
Sundry General Refunds	20,000	25,461	28,981	3,520
Reimbursement of Insurance Costs	20,000	20,000	-	(20,000)
Total Other Revenue	49,000	62,671	182,864	120,193
Total Revenues	4,479,369	4,504,140	4,413,394	(90,746)
Other Sources				
Operating Transfers In From (Primary Government)				
Transfers In Revenue Sharing Reserve	96,682	134,839	200,550	65,711
Transfers In Other Funds	100,000	100,000	1,346,611	1,246,611
Total Other Sources	196,682	234,839	1,547,161	1,312,322
Total Revenue and Other Sources	\$ 4,676,051	\$ 4,738,979	\$ 5,960,555	\$ 1,221,576

ALCONA COUNTY
SCHEDULE OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2007

EXHIBIT V

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
General Government				
Board of Commissioners	\$ 141,960	\$ 141,960	\$ 198,383	\$ (56,423)
Multi-County Circuit Court	219,380	219,380	235,105	(15,725)
Drug Court	51,247	51,247	24,011	27,236
District Court	202,464	202,464	197,097	5,367
Probate Court	249,097	249,097	243,574	5,523
Jury Commission	1,600	1,600	696	904
Friend of the Court	14,762	14,762	-	14,762
Elections	7,100	7,100	4,403	2,697
County Clerk	198,410	198,410	209,439	(11,029)
Equalization Department	202,189	202,189	175,426	26,763
Prosecuting Attorney	215,603	216,124	223,951	(7,827)
Register of Deeds	160,873	160,873	165,964	(5,091)
County Treasurer	143,154	143,154	149,170	(6,016)
Cooperative Extension Service	70,848	70,848	66,133	4,715
Courthouse and Grounds	161,588	161,588	171,024	(9,436)
Alcona County Recycle	1,500	1,500	-	1,500
Cost Allocation Plan	1,300	1,300	2,001	(701)
Soil Conservation	2,640	2,640	2,640	-
Central Data Processing	63,250	68,250	50,220	18,030
Total General Government	2,108,965	2,114,486	2,119,237	(4,751)
Public Safety				
Sheriff Department	1,095,113	1,125,963	1,008,148	117,815
Marine Safety	28,100	28,100	929	27,171
Snowmobile Safety	6,000	6,000	105	5,895
Secondary Road Patrol	96,936	96,936	92,503	4,433
Jail	668,085	647,025	629,059	17,966
Office of Emergency Preparedness	27,908	29,158	27,063	2,095
Animal Shelter	8,100	8,100	6,000	2,100
Total Public Safety	1,930,242	1,941,282	1,763,807	177,475
Health and Welfare				
Medical Examiner	7,260	7,260	19,580	(12,320)
Veterans' Affairs	24,000	24,000	23,176	824
Substance Abuse	26,600	26,600	26,352	248
Multicounty District Health	90,038	90,038	90,038	-
Multicounty Mental Health	35,454	35,454	44,318	(8,864)
Cigarette Tax Distribution	-	-	3,992	(3,992)
Brownfield Redevelopment	-	-	455	(455)
Contagious Disease	100	-	-	-
Total Health and Welfare	183,452	183,352	207,911	(24,559)
Recreation and Culture				
Environmental Study--ORV		8,210	5,659	2,551

ALCONA COUNTY
SCHEDULE OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2007

EXHIBIT V
(CONTINUED)

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Other				
Longevity Pay	5,000	5,000	7,500	(2,500)
Workers' Compensation Insurance	7,000	7,000	20,292	(13,292)
Health Insurance Premiums	-	-	1,000	(1,000)
Insurance and Bonds	160,280	160,280	124,636	35,644
State Institutions	-	-	3,048	(3,048)
Miscellaneous			872	(872)
Total Other	172,280	172,280	157,348	14,932
Capital Outlay			25,000	(25,000)
Total Capital Outlay	-	-	25,000	(25,000)
Total Expenditures	4,394,939	4,419,610	4,278,962	140,648
Other Uses				
Operating Transfers (Out)--Primary Government				
DPW Landfill	2,800	3,900	3,570	330
Economic Development	12,800	12,800	17,660	(4,860)
Ambulance			12,000	(12,000)
Friend of the Court			5,000	(5,000)
Veterans	1,500	1,500	-	1,500
Parks and Recreation	1,000	1,000	-	1,000
Alcona Recreation Area	3,012	1,912	1,800	112
Probate Child Care	80,000	147,257	235,616	(88,359)
Public Guardian	-	2,000	21,737	(19,737)
Contingency--Transfer	180,000	148,900	-	148,900
Equipment Replacement	-	-	107,500	(107,500)
Computer Data Applications	-	-	6,000	(6,000)
Capital Projects	-	-	14,100	(14,100)
Total Operating Transfers (Out)--Primary Government	281,112	319,269	424,983	(105,714)
Total Other Uses	281,112	319,269	424,983	(105,714)
Total Expenditures and Other Uses	\$ 4,676,051	\$ 4,738,879	\$ 4,703,945	\$ 34,934



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

September 11, 2008

County of Alcona
County Board of Commissioners
106 Fifth Street
Harrisville, Michigan 48740

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Alcona County as of and for the year ended December 31, 2007, which collectively comprise Alcona County's basic financial statements and have issued our report thereon dated September 11, 2008. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Alcona County Road Commission (Special Revenue Fund, Component Unit), as described in our report on Alcona County's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Alcona County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Alcona County's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies over internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we and the other auditors identified certain

deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect Alcona County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Alcona County's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting which are listed as Findings 2006-3, 2006-9 and 2006-22.

A *material weakness* is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Alcona County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. Of the significant deficiencies listed above we consider items listed as Findings 2006-3 and 2006-9 to be material weaknesses in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Alcona County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, and which are described in the accompanying Schedule of Findings and Responses as Findings 2006-12, 2006-13, 2007-1, 2007-2 and 2007-3.

We noted certain "Other Matters" that we reported to the management of Alcona County in the accompanying Schedule of Findings and Responses as Findings 2006-19, 2006-24 and 2007-4.

Alcona County's responses to the findings, identified in our audit, are described in the accompanying Schedule of Findings and Responses. We did not audit Alcona County's responses and, accordingly, we express no opinion on them.

County of Alcona
September 11, 2008

This report is intended solely for the information and use of the Alcona County Board of Commissioners, county management and others within the county, Federal and State awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', is centered above the printed name.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

ALCONA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that could adversely affect Alcona County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Alcona County's financial statements that is more than inconsequential will not be prevented or detected by the county's internal control.

Material weakness: a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the county's internal control.

Listed below are significant deficiencies in the internal control.

MATERIAL WEAKNESSES

Negative Cash Balances

Finding 2006-3

Condition: The county pools all their depository cash into one common bank account at Huron Community Bank. One of the county's 55 funds had a negative cash book balance until a transfer of \$26,000 was made to the fund. A due to and due from entry was set up between the General Fund and the Remonumentation Fund. The transfer was made after year end with board approval.

A negative cash balance in a fund represents unauthorized borrowing from one fund to another. The negative cash was caused by the fact that the county must expend money for remonumentation prior to receiving the grant funds from the State of Michigan.

Criteria: While it is acceptable to borrow cash from certain funds to another if the money is not restricted, it is not acceptable to incur negative cash balances. The negative cash balances also represent improper transfers between funds since they were not budgeted nor approved by the board of commissioners.

In addition, Attorney General Opinion 6009 of 1981 states: "County money is to be paid out by the treasurer only upon order of the board of county commissioners, signed by the clerk and countersigned by the chairman, or otherwise as provided by law subject to sufficient moneys being available in the fund for which the disbursement is being made."

Recommendation: All transfers between funds must be budgeted and approved by the board of commissioners. The county should cease to make purchases from funds without cash available to pay for the resulting expenditure. Negative cash balances should never be incurred. A long-term advance should be established between the General Fund and the Remonumentation Fund to ensure that sufficient cash is available.

ALCONA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

MATERIAL WEAKNESSES (Continued)

Views of Responsible Officials: The fund in question was anticipating payment from the State and, therefore, when that payment arrived and was credited to this fund, it would create a positive cash flow. With the entry of a DUE FROM, therefore providing for a positive cash flow, if the need exists in the future, the county would do a “long-term advance” as recommended by the auditor.

Policy will be developed to insure that all transfers between funds will be recognized and approved by the full board of commissioners. Further, this policy amendment shall include the concept that no purchases shall be made from funds without cash available to pay for the expenditure.

This has been corrected as of April 3, 2008.

Capital Assets

Finding 2006-9

Condition: The capital asset listing was not updated until after the start of the audit. The county set a capitalization threshold of \$5,000. The board has not assigned a person to be responsible for updating the capital asset listing. Capital assets that are to be disposed of are stored away from the work site until the sheriff sale.

Criteria: The Michigan Department of Treasury and generally accepted accounting principles requires that each governmental unit maintain a record of capital assets. Governmental Accounting Standards Board (GASB) Statement No. 34 requires capital assets to be presented on the Statement of Net Assets, net of depreciation and related debt. It is the responsibility of the county to update the capital assets listing for additions and deletions. For governmental funds, assets purchased during the year and meeting the capitalization threshold are recorded as capital outlay. The amount posted to capital outlay must equal the additions to the capital asset records. Disposals must equal the reductions to the capital asset records. Depreciation is also to be calculated on the capital assets. Gain or loss on sale is posted to capital asset records.

Recommendation: We recommend the county maintain its capital asset listing throughout the year and that it be periodically reviewed to ensure that the capital outlay is properly posted, disposals are updated, and the related depreciation is calculated.

Views of Responsible Officials: With the assistance of the auditor, the county’s capital assets has been revamped to meet the requirements of GASB No. 34. These will be handled by the commissioners with oversight by the clerk and treasurer. Policy will be developed to insure the posting of increased capital assets in excess of \$5,000 and any and all disposition of property listed in the capital asset report shall be annotated appropriately.

ALCONA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

SIGNIFICANT DEFICIENCIES

Trust and Agency Fund Reconciliations

Finding 2006-22

Condition: The trust and agency detail records contain several negative liability accounts.

Criteria: Trust and Agency Funds, other than expendable trusts, only have asset and liability accounts. Michigan Department of Treasury Accounting Policies and Procedures Manual states: “reconciliation to the general ledger and supporting ledgers should be performed in a timely manner (i.e., within thirty days of month end).”

Recommendation: Only assets and liabilities should be accounted for in the trust and agency funds except for expendable trusts. All balances should be reconciled monthly, especially for accounts that did not clear from the prior month.

Views of Responsible Officials: Communications between the board of commissioners and the treasurer’s office have reached concurrence that all parties shall follow the Michigan Department of Treasury Accounting Policies and Procedures manuals. Further, that all balances shall be reconciled in a timely fashion. This process shall be reflected in the amendments of the Finance Policies and Procedures.

The treasurer’s office, with cooperation from the board of commissioners, shall follow the Michigan Department of Treasury Accounting Policies and Procedures directing that only assets and liabilities shall be accounted for in the Trust and Agency Funds, except for expendable trusts. Further, all balances shall be reconciled in a timely fashion.

NONCOMPLIANCE WITH STATE STATUTES

Our review and study for compliance with State statutes and regulations revealed the following noncompliance procedures:

Budget Violations

Finding 2006-12

Condition: The department heads receive a copy of their revenue and expenditure reports on a timely basis during the year. Recommendations for changes to the budget were not available for presentation to the board of county commissioners.

ALCONA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

NONCOMPLIANCE WITH STATE STATUTES (Continued)

The county has not complied with certain provisions of Public Act 2 of 1968, as amended. During the year, the county incurred expenditures in the General Fund and special revenue funds, which was in excess of the amount appropriated, as follows:

<u>Fund, Function and Activity</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
General Government			
Board of Commissioners	\$ 141,960	\$198,053	\$ (56,093)
Multicounty Circuit Court	219,380	235,105	(15,725)
County Clerk	198,410	209,439	(11,029)
Prosecuting Attorney	216,124	223,951	(7,827)
Register of Deeds	160,873	165,964	(5,091)
County Treasurer	143,154	149,170	(6,016)
Courthouse and Grounds	161,588	171,024	(9,436)
Cost Allocation Plan	1,300	2,001	(701)
Health and Welfare			
Medical Examiner	7,260	19,580	(12,320)
Multicounty Mental Health	35,454	44,318	(8,864)
Cigarette Tax Distribution		3,992	(3,992)
Brownfield Redevelopment		455	(455)
Other			
Longevity Pay	5,000	7,500	(2,500)
Workers Compensation Insurance	7,000	20,292	(13,292)
Heath Insurance Premiums		1,000	(1,000)
State Institutions		3,048	(3,048)
Miscellaneous		872	(872)
Capital Outlay		25,000	(25,000)
Transfers to Other Funds	319,269	424,983	(105,714)
Special Revenue Funds			
Revenue Sharing Reserve	205,655	206,451	(796)
Ambulance	930,782	970,618	(39,836)
DPW Landfill	3,500	3,796	(296)
Budget Stabilization		80,000	(80,000)
Local Correction Officers Training	3,500	5,923	(2,423)
Housing Commission Administration	45,000	152,995	(107,995)
Housing Commission Revolving	157,500	211,460	(53,960)
D.A.R.E.	1,000	1,405	(405)
Victim Services		1,361	(1,361)
Veterans Trust	1,500	4,203	(2,703)
Public Guardian	23,150	28,775	(5,625)
Sick and Vacation		27,554	(27,554)

ALCONA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Criteria: Public Act 2 of 1968 is the Uniform Budgeting Act. MCL 141.439 Section 19 states: “A member of the legislative body, the chief administrative officer, an administrative officer, or an employee of a local unit shall not authorize or participate in the expenditure of funds except as authorized by a general appropriations act. An expenditure shall not be incurred except in pursuance of the authority and appropriations of the legislative body of the local unit. The legislative body in a general appropriations act may permit the chief administrative officer to execute transfers within limits stated in the act between appropriations without the prior approval of the legislative body.”

Recommendation: Department heads must request line-item transfers and/or increases/decreases in the budget in a timely manner. Departments must not exceed their allowable budget for expenditures. All increases in their respective budgets must be brought before the board as soon as a deviation is detected by the department head or other responsible official.

Views of Responsible Officials: With our new procedures and our new computer program, we are now able to more closely monitor and assure appropriate transfers to increase/decrease budget activities and line-items in a timely manner and prevent departments from exceeding allowable expenditures. Further, the board, through the finance committee, will more closely monitor and deter approval of vouchers which are inappropriate due to funding positions. This position will be presented to all department heads at periodic meetings of department heads and elected officials and/or their representatives.

Uniform Chart of Accounts

Finding 2006-13

Condition: The delinquent tax funds use the 600 fund numbers (internal service), Delinquent Tax Property Sales Fund 254 (a special revenue fund number), Housing Administration Fund 875, Housing Revolving Fund 878 and Inmate Welfare Fund 285, these fund numbers do not conform to the Uniform Chart of Accounts numbers for these funds.

Criteria: MCL 141.421 Section 1 states: “The state treasurer shall prescribe uniform charts of accounts for all local units of similar size, function, or service designed to fulfill the requirements of good accounting practices relating to general government. Such chart of accounts shall conform as nearly as practicable to the uniform standards as set forth by the governmental accounting standards board or by a successor organization that establishes national generally accepted accounting standards and is determined acceptable to the state treasurer. The official who by law or charter is charged with the responsibility for the financial affairs of the local unit shall insure that the local unit accounts are maintained and kept in accordance with the chart of accounts. The state treasurer may also publish standard operating procedures and forms for the guidance of local units in establishing and maintaining uniform accounting.”

ALCONA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Recommendation: We recommend that the county assign fund numbers to the above funds in accordance with the Uniform Chart of Accounts.

Views of Responsible Officials: All of the fund, activities, and line-items, where necessary, have been amended based on the Uniform Chart of Accounts. Further, the policy shall be amended to reflect that all funds, activities, and line-items shall follow the Uniform Chart of Accounts and all new line-items shall follow the Uniform Chart of Accounts. These changes or requests for new lines will be presented in writing to the clerk's office prior to utilization of the new line.

Family Counseling

Finding 2007-1

Condition: During 2007, the county established a Family Counseling Fund. When the fund was established, it did not carry forward any fund balance reserves from the prior years.

Criteria: MCL 551.332, Section 2, states: "For the purpose of preserving and improving family life through competent family counseling, family counseling services which shall include domestic violence and child abuse, are created as provided in this section. In each judicial circuit, the circuit court may establish family counseling services. The county board of commissioners shall appropriate \$15.00 of each marriage license fee and all income derived from fees charged for family counseling services. If the circuit has established a family counseling service, each county board of commissioners may participate in the funding of the services and may make additional appropriations for the establishment and maintenance of the family counseling services."

Recommendation: We recommend that the county transfer over the balance of the reserve for family counseling at the time of the establishment of the Family Counseling Fund.

Views of Responsible Officials: At the board meeting on October 15, 2008, the board will approve the transfer of the balance of the family counseling reserve at December 31, 2006 from the General Fund to the Family Counseling Fund.

Commission on Aging Tax Levy

Finding 2007-2

Condition: Alcona County has two county-wide property tax millages for operation and maintenance of the senior center activities. The Alcona County Treasurer distributes taxes directly from tax collections to a nonprofit organization for the purpose of providing funds to operate and maintain the Senior Citizens Centers and programs in Alcona County. Statutory authority for this levy and activity is contained in 1976 Public Act 39 (MCL 400.571). No documentation was provided that a contract was entered into between the county and the nonprofit for senior citizens services as provided by statute.

ALCONA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Since this is a county tax levy, the taxes must be deposited by the county treasurer in a special revenue fund of the county, titled Senior Citizens Tax Fund (fund numbers 274-287), and held there until appropriated by the County Board of Commissioners.

Criteria: MCL 400.573 authorizes the county board of commissioners to appropriate funds to public or private nonprofit corporations or organizations for the purpose of planning, coordinating, evaluating, and providing services to older persons. Further, Attorney General Opinion No. 5842, dated January 19, 1981, states:

A county or township may make an appropriation from general and revenue sharing funds to private, nonprofit corporations or organizations, which undertakes the provision of senior citizen activities or services, and where a contract is entered providing for the terms of the appropriation as authorized by 1976 PA 39, *supra*.

MCL 400.575 requires that the terms of the appropriation shall specify:

- (a) Name, address, and general purpose of the organization.
- (b) A description of the functions and responsibilities to be performed by the recipient of the appropriation.
- (c) The effective date and length of the grant. (We suggest that the length of the grant be a calendar year since the taxes are levied annually and the county budget process is performed annually.)
- (d) Program and financial reporting requirements as established by the county. (We suggest that a copy of the audit report of a private nonprofit organization which receives an appropriation be filed with the county as part of the financial reporting requirements. The audit of a public organization, a county fund, would be included in the audit of the county.)

Recommendation: The county board of commissioners must expend money from the Senior Citizens Tax Fund in accordance with 1976 Public Act 39. Budgeting in accordance with the Uniform Budgeting and Accounting Act is also required.

Views of Responsible Officials: The board of commissioners, through the finance committee, shall request the submission of a contract. The contract shall have the mandates included in statute and will also require the Commission on Aging to provide appropriate necessary financial and compliance reports to the county on a regular basis.

ALCONA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

NONCOMPLIANCE WITH STATE STATUTES (Continued)

2007 Delinquent Tax Revolving Fund

Finding 2007-3

Condition: During 2007, the county borrowed \$600,000 from the “General Obligation Limited Tax Notes, Series 2007” to fund the 2006 delinquent taxes. A 2006 Revolving Tax Fund was established at the time the delinquent taxes were paid to the taxing units in May 2007. However, the county did not establish the 2007 Revolving Fund or create a separate bank account for the tax collections at November 1, 2007 as required by the bond terms.

Criteria: The General Obligation Limited Tax Notes, Series 2007 Taxable Obligations required the county to establish a “2007 Revolving Fund” to pay off the uncollected 2006 delinquent real property taxes on or after November 1, 2007 and it be deposited directly into the County’s 2007 Note payment account established within the 2007 revolving fund. The notes are secured by a pledge of: all 2006 property taxes that were due on or before March 1, 2007 and that remained delinquent, outstanding and uncollected on November 1, 2007; all statutory interest on such delinquent taxes; all property tax administration fees on such delinquent taxes, once expenses of this borrowing have been paid; any amounts hereafter paid to the county by taxing units within the county because of the uncollectability of such delinquent taxes; and investments earnings on all of the foregoing.

Recommendation: We recommend the county comply with the bond terms and establish the required fund and separate bank account for the 2006 delinquent taxes.

Views of Responsible Officials: The county will pay off the debt by October 31, 2008.

OTHER MATTERS

Investment Policy

Finding 2006-19

Condition: The county does not have an updated investment policy that contains credit risk assessments and disclosures for investments as required by GASB Statement No. 40. The county does not have a Check Act 21 policy approved by the board.

Criteria: For years beginning after June 30, 2004, GASB Statement No. 40 requires governmental units to have an investment policy that contains investment risk assessments and additional disclosure requirements for investments.

Check Act 21 allows a bank to transmit checks for payment electronically and requires entities to have a policy that addresses electronic checks.

ALCONA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

OTHER MATTERS (Continued)

Recommendation: We recommend that the county updated the investment policy to include the requirements for GASB Statement No. 40 and have the board adopt the new policy. We also recommend that the board adopt a policy that addresses electronic checks.

Views of Responsible Officials: The county has developed a credit risk assessment and disclosures for investments as required by GASB Statement No. 40. Further, the county has also developed and adopted a Check Act 21 policy. These documents are all inclusive with the current investment policies.

Board of County Commissioners--Fraud Risk Management Program

Finding 2006-24

Condition: The board of county commissioners has not developed a fraud risk management program that is appropriate for the size and complexity of the county, including identifying fraud risks and taking appropriate action to reduce or eliminate the risks.

Criteria: SAS AU 110.03 states, in part: "Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements." Management, along with those who have responsibility for oversight of the financial reporting process (such as the audit committee, board of trustees, board of directors, or the owner in owner-managed entities), should set the proper tone; create and maintain a culture of honesty and high ethical standards; and establish appropriate controls to prevent, deter, and detect fraud. When management and those responsible for the oversight of the financial reporting process fulfill those responsibilities, the opportunities to commit fraud can be reduced significantly.

Recommendation: We are providing the above information to the board of county commissioners for informational purposes for adopting and developing a fraud risk management program.

Views of Responsible Officials: The county has adopted procedures inclusive of dual signatures on all transfers, investments, and reinvestments, and with current and anticipated amendments to the current Finance Policies and Procedures and Personal Policies, fraud risk including employee fraud will be reduced for the county.

Further, the county shall continue to review and adjust Finance Policies and Procedures at all levels with recommendations from our auditors as well as review statutes and other documents that shall benefit the county and provide for clarity and safety for county dollars. Further, the county has utilized SAS AU 110.03 to develop our fraud risk management program.

ALCONA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

OTHER MATTERS (Continued)

Allowance for Doubtful Accounts

Finding 2007-4

Condition: The county has receivables for housing loans and ambulance runs. There were 5 foreclosures on homes that had housing secondary loans. The housing office does not expect to collect on the outstanding loans for which the primary lender has foreclosed. The ambulance department has not established an allowance for doubtful accounts.

Criteria: Allowance for doubtful accounts is an estimate used to realize receivables at the estimated collectible amount.

Recommendation: We recommend that housing and ambulance services establish an allowance for doubtful accounts.

Views of Responsible Officials: The county, in cooperation with the Ambulance and the Housing Commission, is currently developing an allowance for doubtful accounts based on the collection history of the accounts.



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

September 11, 2008

County of Alcona
County Board of Commissioners
106 Fifth Street
Harrisville, Michigan 48740

RE: Report to Those Charged With Governance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Alcona County for the year ended December 31, 2007, and have issued our report thereon dated September 11, 2008. We did not audit the financial statements of the Alcona County Road Commission (special revenue component unit). Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Alcona County Road Commission, is based solely on the report of other auditors. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in the engagement letter dated November 26, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Alcona County. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Alcona County's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures to specifically identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on February 6, 2008.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Alcona County are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year ending December 31, 2007. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 11, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Alcona County Board of Commissioners and management of Alcona County and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division